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Conference*

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**The U.S. and
Mexico:
Setting A New
Agenda**



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The U.S. and Mexico: Setting a New Agenda

**Proceedings of a Heritage Foundation Conference in
The Lehrman Auditorium
The Heritage Foundation
Washington, D.C.
January 26-27, 1989**

This conference and publication of its proceedings have been made possible by a generous and deeply appreciated grant from the J. Howard Pew Freedom Trust, Philadelphia, Pennsylvania.

ISSN 0272-1155

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Opening Remarks

Dr. Edwin J. Feulner, Jr.: Good morning. I'm Ed Feulner, President of The Heritage Foundation. On behalf of the Board of Trustees, my colleagues, and the staff of the Foundation, I formally welcome you to our conference, "The U.S. and Mexico: Setting a New Agenda."

When we began planning this conference some months ago, we made the deliberate decision that the conference should take place immediately after the inauguration of our new President. We did this because we believe it is important that the new Administration make the development of a coherent policy toward Mexico one of its top foreign policy agenda items.

By way of background, this conference is an outgrowth of The Heritage Foundation's Mexico Project. Over a year ago we concluded that Mexico has not been getting the attention it deserves and requires from top Washington-based policy makers. At that time, Heritage launched its Mexico project.

We decided our first step in this effort would be to find out more about the reality of Mexico today. With this information we intend subsequently to provide constructive and useful policy recommendations to the Administration and to concerned individuals on Capitol Hill. I am sure many of those recommendations will come out of today's conference.

We are now at the mid-point of our project. Since we launched it, we have published seventeen papers on different aspects of Mexico and U.S.-Mexican relations.

We have also established an ongoing Mexico Working Group composed of individuals from Capitol Hill, the executive branch, research institutions (both Heritage and other research institutions in Washington), and the private sector. The Mexico Working Group meets regularly with guest speakers to discuss and review important issues, both those internal to Mexico and those affecting our bilateral relationship.

This conference then is a culmination of these efforts. It is our hope that today's discussions will highlight the importance of Mexico to the United States, so both nations can conduct a thorough review of our mutual relationship and policies toward each other.

To further this objective we sought to include, both in our formal program and among those of you in our invited audience, a broad cross-section of perspectives on important issues in U.S.-Mexican relations. We hope and expect there will be a full and vigorous discussion of key issues in U.S.-Mexican relations.

Our formal program has three parts. The first deals with political developments in Mexico, the second will cover economic relations, and the third will consider security issues. Tomorrow, a series of working group meetings will discuss economic growth, political development, security problems, and debt and trade issues. We are looking forward to an interesting and intellectually stimulating program which we think will lead to hands-on policy options being made available to key policy makers in Washington.

When one speaks about policy makers in Washington, and speaks particularly about our neighbors across Massachusetts Avenue toward the Capitol, one of the leading Capitol policy makers has to be the U.S. Senator Phil Gramm.

Senator Gramm, as many of you know, holds a Ph.D. in economics, a subject that he taught for twelve years at Texas A&M University. He was originally elected to the U.S. House of Representatives in 1978 and reelected in 1980 and 1982 as a Democrat. He switched parties and was elected to the U.S. Senate in November 1984, receiving more votes than any Republican candidate for statewide office in the history of Texas.

He was the author of three pieces of extraordinary legislation during the Reagan era, which literally changed the framework of the budget debate and the deficit debate, Gramm-Latta I, Gramm-Latta II Reconciliation Act, and, of course, Gramm-Rudman-Hollings, the balanced budget bill. Phil Gramm serves as a member of the Senate Budget Committee, the Senate Appropriations Committee, and the Committee on Banking, Housing, and Urban Affairs, and he is the author of several books.

We are very pleased that on a number of occasions, he has contributed to different Heritage publications, including a spirited defense of free trade, when spirited defenses of free trade were few and far between, during debates in the Congress last year. I might add that Senator Gramm has a longstanding interest in the subject of this conference. He served as Chairman of the U.S.-Mexican Interpar-

liamentary Conference in 1985-1986 and currently serves as its Vice Chairman.

On behalf of The Heritage Foundation and all of our conference participants, I am very pleased to welcome Senator Phil Gramm back to The Heritage Foundation.



Keynote Address

Challenges for U.S. Policy toward Mexico

Senator Phil Gramm: Let me first say I am happy to be here. I never come over here and see all of the good work you are doing that I do not remember back to the days some twelve or fifteen years ago, when we were both young, and talking about changing politics and economics and the system of government in America.

I am proud that here you are doing it in a big way. I am proud to be a small part of it. I taught economics for twelve years at Texas A&M. I have taught the same subject in Congress for ten years. Aggies are a lot smarter than members of Congress.

Since most of you know the details of the Mexican economy and the Mexican political system far better than I do, I am going to take what I perceive to be the wise approach, and that is try to focus on general principles. I would like to first talk about economic growth as a general proposition and how that is relevant to Mexico and to our relationship with Mexico. Next, I will talk about debt, international debt. You cannot talk about U.S.-Mexican relations without talking about debt. I would like to talk about it in general terms and then look at the debt that exists, basically debt that the Mexican government and the Mexican private sector owe the U.S. government and U.S. banks. Finally, I will talk about investment and trade.

There was a time when people argued with some conviction, if not legitimacy, that economic growth was like culture, that there was great diversity in how one achieved it, and we heard endlessly, mostly from undeveloped nations, about how they were going to find growth in their own way, that the growth process for them was fundamentally different than it was for everybody else, and that, therefore, those who sought to help them should not impose their system on them.

That view was already somewhat suspect when I was a graduate student, but while I had some doubt about it then, I have no doubt about

it now. That viewpoint is totally false and really represents a basic excuse that Third World nations employ not to do what is required to generate economic growth.

If we have learned anything in the postwar period, it is that real sustained economic growth comes from one, and only one, source. That source is economic freedom.

If you look at the nations that have been successful in generating economic growth in the postwar period, there is one constant uniform factor, and that is the basic preservation of property rights, the righty of people to use their God-given talents under an economic system of relative stability to advance themselves and their family. The nations that have grown have, basically, allowed private investment and finance both at home and abroad and they have respected basic economic rights.

The first principle that I believe should be employed in looking at our efforts to try to help Mexico generate economic growth both for their own benefit and ours, is that we must not deceive ourselves or allow the Mexicans to deceive themselves.

The only way to generate sustained economic growth is with economic freedom, and the primary economic problem in Mexico today is lack of that economic freedom.

The second basic principle is about debt. There tends to be, even in our own country today, confusion about debt. I hear people throw up their hands and say we are a debtor nation, that we are the world's greatest debtor nation.

That may or may not be true. The truth is, in terms of income from American investments abroad, we are generating almost twice what is being paid out on foreign investments in the United States. A lot of American investment abroad made in the 1940s and 1950s, in Europe for example, has long since been written off for tax purposes and is carried at zero, but yet it is generating tremendous income.

So it is not clear to me that the United States is, in fact, a debtor nation. But the point I want to make is: Who cares? Clearly, from the time the first Pilgrim stepped on Plymouth Rock until the mid-1920s, the United States was a debtor nation.

As we celebrated the centennial of the nation, foreigners owned almost 20 percent of the capital in the United States of America. By World War I we had literally borrowed our way into being a world

power and America was built, not only at a profit, it was built with borrowed money.

Therefore, the second principle that I want to make, which I think is relevant to a discussion of U.S.-Mexican relations, is that debt is neither good nor bad, that debt is a path to poverty and to riches. It all depends upon what you do with it.

There are a lot of banks and a lot of savings and loans in Texas that are net creditors, and they are broke, because they made bad loans. The point that is relevant to debt is that incurring debt can be a sign of health, as well as a sign of illness.

The relevant question — the only relevant question — is what is being done with the money that is being borrowed. If there is a basic economic principle related to debt, it is this. Funds that are borrowed or foreign investments that are made make a nation richer.

If those investments are made in new plant and equipment, new technology, new productive capacity, then they generate an earning stream that not only pays wages, taxes, and interest, but also generates profits that allow the ultimate retirement of the debt.

If we have become a debtor nation since 1982, we have done so with great benefit to America, because we have created more jobs than all of our industrial trading partners combined, real wages have risen, we have clearly reestablished ourselves as the world's greatest economic power — not just in terms of our absolute level of development, but also in the rate of growth in our capacity to employ modern technology.

We have grown rich with borrowed capital and foreign money. Mexico has grown poor with foreign capital and borrowed money, and the reason is quite simple. Historically, foreign capital and foreign money came into the United States, as it does today, much of it in the form of direct investment, into the private sector. There it builds new plant and equipment and creates new jobs.

Now, politicians may holler about it and try to appeal to xenophobia, but the truth is that debt makes America richer. The problem in Mexico has been that the government has had a policy of not wanting direct private investment, but instead preferring to borrow money to use on government projects that have not generated a revenue stream, that have not generated the capacity to pay the loan back or to service interest on the debt.

The same is true of foreign capital that comes into the U.S. to finance the budget deficit. America is poorer to the extent that foreign or domestic capital goes to buy government bonds, to finance government, which does not generate an income stream to pay the money back or service the debt.

So the problem in Mexico is not the debt. The problem is that the proceeds of the debt have been squandered and have not been used sufficiently in any kind of economic way.

That is not to say all of it has been used to build a government rather than to build growth, but the great bulk has, and that is the source of the problem. You have now a big debt and you have no corresponding economic development to fund it.

You will hear in discussing this problem both in the U.S. and in Mexico the idea that, if somehow the service cost of the debt could be put off, or the debt could be wished away, then the problem would be solved.

I, for one, reject that. Forgiving the debt would not change the fundamental problem in Mexico. It would grant some temporary relief, but unless there were a fundamental change in the system of wealth accumulation and investment, there would be no fundamental change in the plight of Mexico or the Mexican people.

The next issue that I would like to throw out as a principle is trade. Of all political issues, the toughest is trade. When Disraeli said not one person in 50,000 understands the currency question, and yet we meet him every day, he was overstating the case for economic literacy as it relates to trade.

I think that, of all the issues that I have dealt with in the federal city as I have been employed here in the last decade doing the Lord's work in the devil's city, the trade issue has been the most difficult.

The basic principle of trade is straightforward. A nation always benefits from trade. A nation always loses from protectionism. I would be for trade in the U.S. if every other nation on earth were protectionist.

One of the things that Mexico has done under its new president that encourages me is that it has eliminated, in terms of the value of the affected goods, about 75 percent of the licensing requirements for imports. It also has lowered its effective protective tariffs from about 30 percent down to something below 10 percent. The precise amount

is hard to figure, and the plain truth is nobody knows, least of all our State Department.

That is a dramatic change in policy. It came about in part because Mexico came into GATT (the General Agreement on Tariffs and Trade), in part because of an effort in Mexico to try to fight inflation, but the net result is still the same. It represents a fundamental movement toward opening up the Mexican market.

In my opinion, the Mexican economy will prosper more the further they go in that direction. If I were the new president of Mexico, my first effort would be to come to Washington and suggest that we undertake the task of seeking for the U.S. and Mexico what has now been achieved between the U.S. and Canada, and that is a free trade agreement.

Now, I know that you are going to hear people say you cannot have free and open trade between a very developed country and a very undeveloped country. That is just totally false. There is no foundation to that statement whatsoever.

You are also going to hear from American interests, thousands of them, that they cannot compete with cheap Mexican labor. You will hear from Mexican interests, thousands of them, that they cannot compete with American technology.

The plain truth is that they do not want to compete. The plain truth is that there are hundreds of millions of beneficiaries of trade, and I believe that one of our goals should be, not that it can be achieved this year or in this decade or maybe in this century, but one of the fundamental goals of American policy should be to promote a free trade area that extends from the northernmost tip of North America to the southernmost tip of South America.

It is the logical next step in that process, not because it benefits the United States, the colossus of the north (basically, it is not going to make very much difference to us), but because it is going to benefit the people of Mexico and Central America and South America. You give me a free trade agreement in Central America, and I will let Commandante Ortega have all the weapons he wants. In a decade he will be gone, probably hanged by his own people. They will have to build walls to keep their people in, rather than trying to build barbed wire fences to try to keep the Contras out.

The final principle I would like to talk about is investment. Again, if you look at the nations that have prospered in the postwar period from

a dead standstill start, and look at those that have not, you will see that the fundamental difference in terms of the treatment of foreign investment is that the nations that have not developed have been nations that have wanted to preserve the ability of the domestic government to have a large hand in investment.

There are nations that have tried to use foreign capital through the government, and generally politics, not economics, has dictated the use of that capital. These nations have ended up with less investment used less efficiently than nations that have opened up their market more or less to private direct investment in building plants and equipment and in taking equity positions.

I think to be fair we have to take into account that Europe already had a developed economy and so had Japan, but if you look at a country like Korea, it is clear in Korea, a country that has gone from a per capita income of about \$100 a year in 1953 to a per capita income of about \$3,500 a year today, that a primary secret of their success has been direct foreign investment.

I believe that, for Mexico to generate the kind of economic growth essential to deal with their problem, they are going to have to junk the 51 percent domestic ownership rule and they are going to have to open their market for direct private investment from abroad. There will be a lot of opposition to that in the Mexican economy from people again who do not want to compete, but I believe it is going to be absolutely essential.

I support debt equity swaps. I applaud what Mexico has done to this point, but what they have done has been very timid. While it has been difficult for them, it has in no way responded to the real problem. The debt equity swap system, which allows people to exchange debt for cash and then invest in a very limited part of the Mexican economy, is simply not going to be enough to do the job. If I were in a policymaking position in Mexico, I would look at debt equity swaps involving the parastatals, and I would put PEMEX on the block first.

Finally, let me just sum up by reviewing the principles that I think are relevant to the debate here.

The first principle is that economic growth comes through only one source. There is no way that you can set out an economic system to fit your political needs and aspirations and expect it to be successful. Only some form of economic freedom produces sustained economic growth.

If Mexico is going to sustain economic growth, they are going to have to grant more economic freedom.

Second, debt is not the problem in Mexico. The problem is the misuse of the debt. The problem is that the debt that has been incurred has not been used to generate new productive capacity that could service the debt, which could allow the principal and interest to be paid back, and yield such a return that people would be literally knocking down the door to Mexico, trying to invest more money.

I believe that, if Mexico would open up its economy for foreign investment, open up its markets to additional American and foreign goods in return for agreements, there would be a corresponding opening in other markets for Mexican goods, and we could easily increase American investment in Mexico tenfold in a very short period of time.

In fact, simply bringing Mexican capital back into Mexico would go a long way in dealing with the debt service problem. If you think about it, the U.S. has become an enterprise zone for Mexican labor and American-Mexican capital, and that has happened because of the tremendous disparity, not in living standards, but in economic opportunity and freedom.

Guest: I am a Mexican, I am a businessman, and I agree with most of the things that you said. However, I want to bring to your attention the fact that, for instance, economic freedom and the development of the very strong private sector is not so easy even from the cultural point of view.

In a few words, in our country we do not have enough businessmen, and I suppose that in many other underdeveloped countries, that is the case. So we hoped that economic freedom would be the answer, but sometimes it is rather difficult to develop only through the private sector, and that is when the government, unfortunately, comes in and makes some very serious mistakes.

I feel, on the debt issue, that the problem is that the debt in a way was misused, and now we do not have that stream of income that you are talking about, and do not know how to get out of this fix, because there is no possibility of adding more debt to the \$107 billion that we owe. For the country it is a difficult situation.

I agree that we are making an effort on trade with lower tariffs and the matter of foreign investment and the free trade association with the United States has become really a political taboo in Mexico.

The government feels that we are not ready. The government practices, I would say, xenophobia against foreign investors, which is the reason for the 49-51 capital partnership, and the government does not want to open it up to, say, 100 percent foreign investment in the ownership of the companies.

Therefore, the situation is difficult, and that tenfold increase in investment that you talk about is not going to come very quickly.

Therefore, to make a long story short, even though I do agree with your presentation and I think it is very fair and very forceful, unfortunately, I would think that some Mexican political ideologists, theoreticians and other forces will prevent us from taking some of the good ideas that you have given us this morning.

Senator Gramm: Well, let me thank you for your comments and let me respond to just a couple of them.

First of all, there are a lot of things that I am afraid we will have a shortage of in the future, but one of them is not business people. I commend to you to go back and read what was written about Japan and the Japanese in the 1860s and the 1870s, about how lethargic they were, about how their cultural system would never lend itself to economic development, and then I commend you to look at Japan today.

What happened was that an economic system affected the culture, and as a result, it created vast numbers of business people. I have no doubt that there is great entrepreneurial genius in Mexico, as there is everywhere else in the world.

The key is to change the system to allow that genius to be unleashed. I have no doubt about the political problems in Mexico, and I think one of the questions that anybody in this country who loves Mexico and who is concerned about it and who recognizes how critically important Mexico is to us has got to realize is that, to do what needs to be done, a Mexican politician is going to have to take on the major political forces that elected him.

Clearly, to institute an enlightened economic policy, the new President of Mexico would have to take on the unions, would have to take

on the parastatals, would have to take on the established business interests, and the paradox is that the beneficiaries, the working men and women of Mexico will not know that they are beneficiaries until sometime later.

Mexico needs some political heroes. I am not ready to throw in the towel on the problem. Let me say again I have talked very matter-of-factly about principles of economic development. I am not trying to impose any kind of system on Mexico. I am simply talking about what is going to be required to do the job, but ultimately the Mexican people have to make the decision through their leaders. They have to be led in terms of trying to come up with a solution, and it is not going to be easy.

Guest: Senator, could I follow up on your very intriguing comments? You are a very good politician. Politicians are known for their capacity to empathize, I think, with other politicians.

Could I ask you to put yourself in the shoes of a Mexican politician faced with the very practical demands that you have just spoken eloquently about. If you destatize in Mexico, not just thousands or hundreds of thousands, but millions of patronage positions, sinecures, jobs, go right down the drain.

If you allow the level of U.S. capital investment that you are talking about, the nationalists are going to get on your back immediately, along with the entire articulate intellectual community in Mexico. Except for sheer political will, which politicians do not really talk about very much, how do you go about doing what you suggested? How do you begin the process, how do you build the coalition, if you are a Mexican politician or president to accomplish the laudable goals that you have set forth?

Senator Gramm: First of all, I do not want to be in any way glib in my answer, because it is a very serious question.

I think that the Mexican political system, as it now exists, can be a great advantage to someone who wants to make dramatic changes. The president in Mexico has great power and I am convinced that substantial changes could be made given that political system, which would be much harder if, in fact, the congress had a lot of separate powers from the president.

The Mexican president, in terms of ability to change the system, is a very powerful political figure. He is not eligible for reelection. It is no

secret that many have used the office to line their pockets and then moved on to, if not greener, then more beautiful pastures.

The Mexican people have accepted a 40 percent decline in living standards in the last ten years, which is incredible. I think about what would happen in America if we had that kind of cataclysmic change, yet things have been relatively peaceful in Mexico under the circumstances. However, I am one of those people that believes that the problem is going to get worse and that you cannot just limp along. You are going to have to do something.

I think, secondly, that as long as the people believe that their political leaders have a plan and that they believe in the plan, a person who is a leader can induce other people to listen to the plan, and at least have a fighting chance of selling it.

Politicians underestimate the will of the people and I guess this is especially true in a country like Mexico, so I think it can be done. Will it be done? When de la Madrid came into office, there was great hope. I think it is fair to say that the people in this country who met de la Madrid liked him, but when it came to the bottom line, he either could not or would not make the changes.

I think that maybe there is an incentive for the new president to act, because even the old political system shows clear signs of not surviving unless there are dramatic changes, and Gramm's first law of political behavior, which would clearly apply in Mexico, is that an elected official will never make a hard choice as long as there is any viable alternative.

But the corollary to Gramm's first law, which is important in this case, is that, if a politician knows he is going to catch hell no matter what happens, he will normally do the right thing.

Guest: Looking for political heroes a little closer to home, one of the most important constraints we have right now on economic growth is a labor shortage, and one of the most important sources of hard currency for Mexico is Mexicans working in the U.S.

Is there any prospect for making available a guest worker program to let more Mexicans come into the U.S. and repatriate some of their earnings back to Mexico?

Senator Gramm: Well, I think it is clear that, when we eliminated the guest worker program, especially in agriculture, that is when we had

the huge surge in illegal immigration. I am not sure I am ready to buy onto the idea that we have a labor shortage in the United States. But I supported the H(2)(a) program in the immigration bill, and our problem now is trying to get it to work.

Guest: I am a great admirer of yours and your economic philosophy, but I am afraid you are very hostile toward the Mexican government.

Senator Gramm: Let me respond by saying that I think one of the things that Americans have to do if they are going to try to work with Mexico is to harden themselves to the fact that it is very difficult for a country like Mexico not to resent the U.S. I mean I have long ago quit worrying about what the foreign minister of Mexico says, recognizing that there is almost an agreement whereby the leftists get the foreign ministry in any Mexican government, and so those people basically go on their merry way tweaking our nose.

What is relevant is what policies are instituted in Mexico. The problem with the guy coming in on the white horse is even if you get the right guy — which often does not happen — you do not have a succession system and as much is destroyed when he is gone as he built.

I think one thing we have proved in our system is that stability in the transition of power is critically important. Gorbachev's problem in *perestroika* is nothing more or less than trying to implement the things I have talked about here.

I mean *perestroika* is Russian for “free enterprise.” I visited the Soviet Union during the Democratic convention because, as I told my Democratic colleagues, I wanted to see what their economic platform, if implemented, would really be like.

I found out that it was being rejected in the Soviet Union in the name of *perestroika*, but as I tried to tell them, you know, freedom is like pregnancy, you cannot be just a little free, and if you think you are going to give people economic freedom and they are going to be satisfied with that alone, you do not understand the nature of people.

They readily admitted they do not have the foggiest idea what kind of impact it is going to have, but whatever impact it has, they have concluded — at least the young intellectuals and the senior leadership have concluded — that the Soviet Union cannot be a world power if it cannot absorb modern technology.

But going back to your point, I think the only reforms that are going to be lasting, are going to be the reforms that ultimately come through and/or are sustained by the democratic process. That means working to change things one element at a time. The paradox is, if you can have a breakthrough and have some success, the system feeds on itself, but it is difficult, because government is the enemy of freedom in every country everywhere and government has to be checked, and the politician always wants to interfere.

In this country, we have checked government pretty well and that is really part of our success.

Guest: I want you to explain, when you say economic freedom, are you linking this to democratic freedom? Do they go hand in hand, or do you just think a Pinochet-style government could do it for Mexico?

Senator Gramm: Well, let me say that if you went out and you talked to the average person in Mexico, and you really probed, the most important rights to them are economic security in terms of their property, the right to use their God-given talents.

I think I support Jimmy Carter's policy of promoting democracy and human rights. The problem is it does not go far enough. It is just one pillar, and American foreign policy is missing the second pillar. The second pillar is economic freedom.

President Carter sort of had this idea, if we have an election, no matter how meaningless it may be, whether people are voting because they see a chicken on the ballot or a turkey on the ballot, that that somehow created a democratic society. I do not think that it necessarily does. I think that what you have to have is the protection of economic rights, and I am becoming more convinced that economic freedom is the forerunner of political freedom, not the other way around.

As I look back at the American system in the colonial period, it was really the economic freedom that we had that churned the desire for political freedom and really made it all possible. So I am not sure that it has not always been that way from the beginning.

I am for both. I do not think you can sustain one without the other, but I think that economic freedom is the missing element of true prosperity and freedom in much of the Third World, because politicians, in a society that is an emerging democracy, are much freer in giving political freedoms than in giving economic freedoms.

Guest: You speak of economic freedom and that is a very tricky concept because, if you look at both countries, maybe it could be the case that we have more freedom in Mexico than here in the United States because you have so many regulations. For example, you cannot sell goods to some countries because of political differences, and the question will be, when you are speaking of economic freedom, which leads you to have investment and freedom in our two countries, would you be ready to have also a free flow of human capital from Latin American countries into the States?

Senator Gramm: I think that we are deceiving ourselves if we think that 3 or 4 percent growth rate in the developing world is going to solve the problem. I think our goals are far too low, and I think countries like Korea and Taiwan proved that.

If Mexico had an 8 percent real growth rate, the debt problem would evaporate. So, again, it is the dynamics of the society that affect the problem. There would be more people willing to invest under different circumstances in terms of growth or in terms of expansion of economic opportunity.

If your point is that there are limits on economic freedom in the United States, you are right.

The differences I think, though, are that, number one, the limits are clearly defined and there is a great degree of certainty as to what they are. Part of the genius of entrepreneurship is the capacity to function within a set of parameters.

It is when the parameters are not defined, when they change very often, when they are arbitrary, that they create greater problems. I think that part of the problem in much of the developing world is that nobody quite knows what the rules of the game are. It varies.

If you are a very small entrepreneur on a back street in Mexico, my guess is you have got pretty much in the way of economic freedom, at least in terms of your individual actions. You get bigger, you come under government supervision. You get to the point where you have to begin to deal with government authorities in order to stay in business. Your freedom starts to shrink very rapidly.

In terms of the free flow of people across our border, the U.S. is not going to do that. I think it is clear that we want to generate economic growth, so that people will want to stay in their own countries. I am

convinced that the development of a stronger economy in Mexico and Central America will probably produce a situation where many people who have come to this country illegally will ultimately decide to go back. My guess is that people that have gone through the process of being here legally, that most of those will stay, but I do not see that as being relevant to the idea that we are going to have trade.

We have a free trade agreement with Canada, but we do not have the free flow of people on a permanent basis into and out of Canada, though we have a tremendous ability for people to come in to work, people to come in on what is not too different from a work permit program, for people to stay extended periods of time as part of economic growth and economic exchange, but in terms of the ability of millions of people to simply relocate, we do not have that agreement with Canada, we do not have it with Japan, we do not have it with Korea, we do not have it with Europe.

My guess is that we are not going to have it with Mexico. In this period of lagging economic growth, it has become a safety valve, it has become a source of foreign exchange, but under different economic circumstances.

Mexico would want its own people at home building its prosperity rather than building ours.

Of course, the truth is—and it is hard to get politicians to understand it—Mexico cannot get richer without making America richer. America cannot get richer without helping make Mexico richer. Economic progress is like love. The more you have of it, the more it spreads out. You cannot monopolize it, or it will not grow.



Panel I

Mexico: Prospects for Democracy

W. Bruce Weinrod: I am Bruce Weinrod, Director of Foreign Policy and Defense Studies here at The Heritage Foundation. On behalf of my colleagues here, I want to thank all of you for joining us today for what I think will be a very very interesting discussion.

Senator Gramm already launched our conference in the spirit we had hoped, offering some interesting and provocative ideas, and we had some chance for questions and discussion. We will now move into the more formal part of our program with our first session which will review “Prospects for Democracy” – in other words, the political situation in Mexico and how it might have an effect on U.S.-Mexican relations.

Each of our main panelists will present his or her paper and then we will ask three commenters to discuss these presentations. Then we will open the floor to questions. At that time, I will ask all of you to direct your question to one specific individual and make your question as brief as possible, so that we can have a maximum time possible for discussion with our audience.

Our first speaker is a well-known foreign correspondent, journalist, and an author on Mexican issues, Sol Sanders. He will present his comments on the *Partido Revolucionario Institucional*, the PRI.

Sol Sanders: A Mexican journalist has written that we live in a world of transvestite politics – things are not what they seem, and what they seem they are not.

The confusion that reigns in Mexican politics is the principal ingredient of what we will be talking about this morning. I have been asked to talk about the PRI. One cannot talk about PRI as a party in the West European or even North American sense of the word.

The PRI is, in fact, the structure of the Mexican corporate state. The Mexican president has more power in that structure relative to the

other institutions of government than a president in any other country in the world.

It is precisely for this reason that the situation is confused. Mexico today is ruled by a new, young (39-year-old) president, about whom many Mexican observers are puzzled. Who is Carlos Salinas de Gortari, what does he think, and what is he trying to do? Is he the reformer who promised an *apertura democratica*, or a traditionalist who came out of the elections last July, which were as corrupt as any in Mexican history?

Is he the innovator, the compromiser, the moderator among the various currents, the PRI, and the Mexican elite? Or is he simply a new autocrat who, as he told an Italian journalist recently, takes his *pen-samiento* from Machiavelli, Gramsci, and Reyes Jeroles?

Is he, as he has promised many Americans in private conversations, and as some of his young economic advisors say, a recent convert like Gorbachev, Deng Xiaoping, the Japanese finance ministry, and a horde of other people around the world who have decided in favor of liberalization of market mechanisms and decentralization, that capitalism is the only thing that works to produce economic development?

Or is he simply another Mexican technocrat, armed with North American business school degrees, who wants to fine tune the Mexican economy out of its present morass, but preserve state capitalism?

Is he, finally, the son of his senator father, or is he the child of his mother's well-publicized ultra-leftist views, and the intellectual, as well as the real nephew of one of the two UNAM (National Autonomous University of Mexico) professors arrested in the student revolution in 1938?

One overwhelming question was whether Salinas was to be the weakest modern Mexican president brought into office by, at best, a simple plurality in the last election. On January 10, 1989, only a few days ago, President Salinas settled that question at least temporarily. He moved to wipe out the power of Joaquin Hernandez Galicia, who for thirty-seven years had run the National Petroleum Workers Union. The action was imaginative, bold, decisive, and generally applauded across the political spectrum in Mexico. When the oil workers and their supporters on the left folded immediately, at least for the moment Salinas had proved to a surprised and to a largely admiring public that

his manhood was intact. My Mexican friends would say that in more specific terms.

With this action, Salinas seems to have signalled that he intends to use the traditional power of the president and that he intends to restore it to what I would call its pre-Lopez Portillo prestige and effectiveness, which of course has important implications for whether *el sistema* is intact and still functioning.

But Salinas's action against the oil workers and their union boss La Quina poses as many questions as it has answered. Had the action been taken as part of an enormous general and ongoing cleanup of such *cacicazgos* (chieftan) will he now go after the smaller but equally corrupt and powerful empires that exist in other unions in the parastatals, say, FAA, the *Telefonos de Mexico*, UNAM, and the whole educational establishment, particularly the primary skill union, or was the president's action simply revenge, a lesson to be taught and learned by members of the revolutionary family who stepped out of line in last year's election?

The oil workers had deserted the PRI and had supported Cardenas with money and votes. And conceding that only draconian measures could have accomplished his purpose, are we to witness a continuing abuse of constitutional and legal powers that have too often in the past marked the rule of strong presidents in Mexico?

Was the La Quina affair a stroke of genius, setting the pattern for the coming six years? Only time will tell.

My own feeling is that time is running against the president. If he intends to restore the power of the presidency, what ideologues in the PRI once proudly called *presidentialismo*, he must act quickly on many fronts.

No strategy of throwing a battalion at a time into the battle is going to work. Salinas will have to blitzkrieg his enemies if he is to restore presidential power, for there is a creeping rot coming up from below, the erosion of Mexican standards of living, the growing unemployment, the growing communal violence, and the growing demoralization, cynicism, and lack of confidence in the future of the country and the society.

Yet, any attempt to break the power of the corrupt union leaders is a very bitter pill for the PRI and the corporate state. Not only have the unions been in theory part of the tripod on which the power has rested,

but the party, as its roots have rotted away, has increasingly counted on the parastatal unions to work out the mechanics for winning elections, and it has used the profits from the parastatals or their deficits to pay off the middle and the upper classes in Mexico.

Increasingly strong pressures at home and abroad for transparent Mexican elections, as the president has promised himself, are going to make these mass organizations more necessary than ever before. The PRI's power to win or manipulate this new demand for a clean electoral system is going to be tested very shortly in several states, for example, in San Luis Potosi. Furthermore, the highly publicized success, and I believe exaggeration of the price controls in stemming inflation over the last year, have to a considerable extent come because of the support of the government trade union system.

If Salinas begins to crack heads in the trade union movement now and replaces them with new, more representative labor leaders, then there is every likelihood that the pressure from the people to defend the dropping living standards will become stronger.

There is another important point — and I may be premature about this — to be made about the La Quina affair. According to the government version, and even more so with unofficial versions such as that which appeared in *En Proceso*, for example, the army played, not only the decisive but the overwhelming role in taking La Quina into custody.

For the first time in 45 years, the army was prominent in the formal *toma de posesion* formalities, the transfer of power in the inauguration of the president on December 1st. Over the past half century, the military has ceded real power inherited from the revolution to civilians and police, content to be bought off with the general's heavy officer corps. One must now ask if that process has been reversed with the use of the military police for the La Quina operation and the creation of a new military office of national security whose functions are yet to be described publicly.

The military have almost overnight been transformed back into a chip on the gaming board. Not only was the army the President's instrument in the La Quina affair, but it was wielded by the minister of *gubernacion* (state security), Gutierrez Barrios, who is himself of military background. At 67, Gutierrez Barrios is considered by friend and foe as perhaps the master Mexican politician on the capital's political scene, and now that Reyes Heróles is gone, there could be, for the first time since Aleman's presidency and the virtual disappearance

of the military from national political life, a candidate for a sort of *caudillo* (dictator) should the Mexican crisis continue to deteriorate.

The betting I believe is that Salinas, the self-proclaimed child of Machiavelli, intends to use all the elements, or if you will, all the remnants of the corporate state to try to build the crumbling political and economic structure, in part by playing one major current against another. Thus, his government contains some of the strongest personalities of contemporary Mexican politics, most of them 25 to 30 years his senior, on what is generally considered the Mexican right.

On the left, his party is heavily staffed at lower levels by *Echeverristas*, popular and Marxist, who look to the former president for inspiration. It was no accident, of course, that the Fidel Castro dinner party was held at Echeverria's home.

Salinas has preserved the economic posts for his technocrats, some of them more experienced in doctoral theses from North American business schools than in practical government operations, and there is also a sprinkling of neo-*Alemanistas* and former followers of Lopez Portillo.

The president is a well-known if reportedly impatient horseman, but this is a very fast set of horses to ride.

Mr. Weinrod: Next we have David Asman, a Heritage alumnus, who is now editor of the Americas column for *The Wall Street Journal*, to discuss the *Partido Accion Nacional*.

David Asman: The major opposition party in Mexico is called the PAN, which is the Spanish acronym for the National Action Party. Its roots are in the 1940 Mexican election, in which General Manuel Camacho won the election, although it was said he won it with the use of massive voter fraud against General Juan Almacan.

There were years of protest after that election and the supporters of General Almacan who lost organized themselves into the National Action Party and since then it has been respected by the PRI as a "legitimate party." However, so long as it was kept under control, whenever there was an opportunity for the PAN to actually win an election, especially an important election, there were usually the various methods of voter fraud initiated by the PRI to keep the PAN out of power.

However, there were occasional moments in recent Mexican history when the PRI allowed the PAN to win certain elections, notably the 1983 local elections in the North, in Chihuahua and elsewhere. These were mayoral elections, but whenever the PAN showed itself as being a truly viable alternative political force, the PRI would step in through various methods, either stuffing ballot boxes with tacos, as they say in Mexico, or sometimes through violent methods or other strange dirty tricks.

Thus, the PRI has kept the PAN at a safe distance from real political control, though they have allowed anywhere from 10 to 20 percent of the votes in a presidential election to go for the PAN over the past three or four presidential elections. At the last one it was 17 percent, and there have been several deputies allowed to hold forth in the Mexican Congress, primarily just to give speeches, never to have a deciding vote or a strong lobbying influence in any critical legislation.

The PAN generally has stood for traditional conservative values, those values that we recognize in the U.S. as conservative, such as demonstrable respect for religious faith, something that has been lacking with the PRI since the revolution.

In fact, in the revolution and since the revolution, the party that was the PRI before it was called such and since has become the PRI has been very hostile toward the Catholic Church. There was even a time in which there was practically a civil war between the PRI and those supporting the Catholic Church in Mexico.

A second way in which the PAN demonstrate its conservatism is in foreign policy. It has a strong anti-communist bent that demonstrably differs from the foreign policy position of the PRI, which generally looks favorably to Fidel Castro's Cuba. PAN favors more openness toward the U.S. both in foreign policy and political issues and also in economic trade issues.

Third, in terms of domestic economics, PAN really promotes economic liberalism and has a general disdain for the statist and interventionist economic policies of the PRI.

The notion of economic liberty is closely connected with political liberty in the thinking of the PAN enunciated by the PAN's leaders. Juan Jose Hinojosa, who has been a PAN deputy for almost thirty years, responded in a 1984 interview with me to a suggestion by a PRI official that Mexicans "would not be able to handle the type of open market

found in the U.S.” Juan Jose Hinojosa said, “Which group really represents the goals of the Mexican revolution, those who say that the Mexican people deserve the chance to represent their own political and economic interests, or those who claim that the Mexican people are not sophisticated enough to know the difference?”

They generally have used this as their watchword, that is, the connection between political and economic freedom. These values generally coincide with the political values of the northern Mexicans, which is where the PAN's support is the strongest. The PAN delegations exist in the south of Mexico, but to a limited degree. The leftist political parties and unions are generally the strongest opposition to the PRI in the south.

In Mexico City, the PAN has had a strong, but not a dominant, base because of the benefits bestowed upon the Federal District by the bureaucrats who live there, not unlike Washington. Still, Mexico City opposition to the PRI has been growing strong in recent years, particularly among those on the left, and the PAN has been working with parties on the left in Mexico City to maintain vigilance against voter fraud and to oppose the PRI.

The status quo of the PRI and the PAN, the relationship and the balance that historically had been the case, changed in the mid-1980s. I do not think it is coincidental that it happened about the time of the economic crisis of 1982-1984, which is when the Mexican bureaucracy became top-heavy. It simply could not economically afford to maintain both the bureaucracy that it had and the political roots of that bureaucracy. The political roots that went down into every little town in Mexico began to fray at the edges, and where those political vacuums began to occur in Mexico, the PAN, and leftist parties as well, began to creep in.

Two northern state elections really thrust the PAN upon the world stage as a major opposition force in Mexico. These were the 1985 election, particularly in Sonora, and the 1986 statewide elections for governor and deputies in Chihuahua.

For the first time, national attention was focused on the archaic power plays of the PRI. As I mentioned before, the stuffing of the ballot boxes and electoral fraud were so blatant in that election that some people thought the PRI would respect electoral procedures. People in the U.S. and in Europe were able to see, by proof of video cameras,

officials preventing PANistas from voting or ballot boxes that were full at the beginning, when they first opened the cassia or the voting booths. As the fraud was easily seen, the PRI could no longer gloat in world institutions about its democratic system compared to other Latin democratic systems. It was really on the spot, primarily because of the electoral fraud in those two elections and the world attention that it received.

The PAN was able to popularize its message to show that its ideas, its free market ideals, and its respect for traditional values did not represent merely the privileged class, but were things that everybody could appreciate. Then came the 1988 presidential elections, the elections of last July, and I am sure most of you were aware of the various charges of voter fraud leveled against the government.

Mr. Salinas won with 50 percent, just above 50 percent of the vote. Seventeen percent went to the PAN. About 30 percent went to Gualtema Cardenas, a left winger who came from the inside of the PRI.

But the protests were made in part with a coalition of PANistas and the Gualtema Cardenas and Muñoz Ledo faction. A committee was started by a PANista from the north, an executive, Rojedio Sada, who was from Monterrey, and has formed a group called ADESE, the Assembly for Effective Democratic Suffrage. It has a group of about 20 or 30 members who are from the left, Muñoz Ledo, and from what would be recognized as the right, the PANistas and more moderates representatives like Enrique Krause and intellectuals from Mexico City.

It was clear at the time to some PANistas that such an alliance had dangers associated with it. That is, they were undercutting their own ideological predilections by forming an alliance with the left. There was only so far they could go in protesting the elections without actually getting into conflict with the left with whom they were protesting.

Also, it was clear that there was a faction in the PRI, the Salinas faction – Mr. Salinas, Mr. Aspe, Mr. Camacho – who were generally much more in line with the economic views of the PAN than they were with the economic views of the left, the Gualtema Cardenas party. So the PAN pragmatists, the pragmatists within the PAN itself, argued for helping to promote the anti-statist policies of the Salinas faction in the PRI in return for more political power.

Working against compromise with the PRI, though, were the years of bitter resentment and mistrust, and a fear that the PRI's and Salinas's current leaning toward free market policies was merely a temporary shift to please foreign creditors — that it was not realistic. So there is now a split in the PAN between those people who believe that they share more in common with the current leaders of the PRI — Salinas and others — who want to privatize state industries, who want to open up the borders (as they already have) by lowering tariffs, who generally want to follow an economic policy more consistent with the traditional PANista line — and the other PANistas who feel that any compromise with the PRI is dangerous, that even if they have to make a deal with the devil, in this case Cuauhtemoc Cardenas, it is worthwhile in order to maintain their integrity and in order to maintain their distance from the PRI.

I think there really is a genuine battle going on inside the PRI and among former PRIistas, which shows that possibly those PANistas who feel that they have more in common with the current leaders of Mexico may have some evidence to back up their claim, particularly because of the fact that the left, Muñoz Ledo and Cuauhtemoc Cardenas, are as hungry for power as they have demonstrated in the past.

Mr. Weinrod: Next we will hear from Delal Baer, Director of the Mexico Project at the Center for Strategic and International Studies.

Delal Baer: The 1988 elections are a dramatic reversal and realignment of the Mexican party structure, potentially shaping the future direction of Mexican democratization toward a two-party system on the left. That is a remarkable political occurrence, with the PRI occupying a center left position, if you will, and the Cardenistas being the major electoral opposition force on the left.

The elections saw the displacement of the PAN as the second largest opposition force in the nation, and that is tremendously significant. The Cardenistas performed very well in Mexico City, where the PRI only won 27 percent of the vote. That is really remarkable.

They performed well in Michoacan, Guerrero, the State of Mexico, Veracruz, Tamaulipas. In sum, the 1988 elections potentially realigned the Mexican party system. What I would like to do for you today is explain how this happened, why it happened, and then be descriptive, that is to say, try to outline who is Cardenas, what is this new left, and

what implications are there for U.S.-Mexican relations and for Mexico. The development is all the more remarkable because Mexico traditionally does not have a very strong electorally based left. Traditionally the PRI was the left.

Throughout the Mexican revolution, the PRI legitimated itself by using revolutionary symbols. It behaved in many ways, for many years, like a revolutionary party – it redistributed land. It monopolized traditionally what would have been the left's natural constituency, in that the trade union movement and peasants, all of whom might vote for a left wing opposition, were organized in a corporate structure within the PRI.

The PRI nationalized the oil industry. It created a mixed, state-heavy economy, and it identified with the revolutionary movements abroad. In short, there really was no political space for a strong left-oriented electoral opposition.

So there were traditionally tensions within the identity of the PRI. Nonetheless, it more or less successfully managed to occupy left political space, and there was something of an internal – I hesitate to call it democracy – but an internal pluralism within a single party state, in which we saw periodic pendular swings within the party, and those pendular swings preserved the delicate consensus.

Just about everybody could find a home within the PRI, and the left could feel that, if perhaps Jeraz was conservative, then they too would have their turn at bat. So the left was kept close within the PRI, if you will.

This delicate consensus, this internal dynamism of the PRI was broken in 1982 with the presidency of Miguel de la Madrid. Miguel de la Madrid pursued a series of policies in reaction to a crisis in economic development and the debt crisis, policies that were viewed as extremely conservative within the Mexican context. These policies included privatization, reducing the rule of the state in the economy – in spite of the fact that some people would say that he went too slowly, while there were others that said he went too fast – trade liberalization and enhanced economic relations with the U.S. All of these policies were appalling to the left wing of the PRI.

As a consequence, from the bowels of the party came Mr. Cuauhtemoc Cardenas, son of Lazaro Cardenas, the vindicator of the revolution. Cuauhtemoc Cardenas was going to assume the mantle of his

father and be the heir to the true revolution. He argued that de la Madrid and then his successor, Mr. Salinas, had abandoned the principles of the revolution, had abandoned the policies of the revolution, had moved too far to the right, and no longer deserved to be described as the true heirs of the revolution.

Why did he manage to succeed so dramatically? A number of forces came together in an interesting confluence. First of all, his name. The name of Cardenas in Mexico has the magic, the glamor, the mystique, if you will, that the name Kennedy once had in the United States. It is hard to run against a hero, and Lazaro Cardenas is a hero in Mexican political mythology.

Second, six years of economic adjustment under President de la Madrid had not yet shown immediate signs of paying off economically. Fitful, uneven growth and rather dramatic declines in purchasing power – these gave Mr. Cardenas great issues to run on. There was a tremendous amount of economic discontent in the population. If any government had presided over that kind of economic stress for six years in an open political system, they would be vulnerable to being thrown out electorally.

Cardenas was the catalyst, he was the figure around whom a lot of Mexican discontent could focus, and the PRI's traditional constituencies were hurting, no doubt.

And so who is Mr. Cardenas, what is his coalition? It is interesting to note that he did not even have a party to run upon. He ran under a collection of parties, a coalition of various parties in the Mexican political arena.

First, there is the Mexican Communist Party, the PSUM. The "new guard" of the PSUM revolves around the leadership of two individuals, principally Carlos Gomez and Reynaldo Martinez Perturo. These people were originally student leaders. They broke formally with the USSR over the Czechoslovakian invasion in 1968. Although they continue to entertain ties with the Russians, they are influenced, it is said, by Eurocommunism, particularly Italian style.

The "old guard" of the Mexican Communist movement, that is, people like Manuel Arayas and Campa are of a very different generation. From what I can gather, they do not have a lot of influence right now in the Mexican Communist Party and they are very mistrustful of

any kind of alliance with Cardenas, because they are afraid that they will be used and abused.

Nonetheless, the Mexican Communist Party, the PSUM, did align with Cardenas in the 1988 elections. Other components of the Cardenas coalition are certain breakaway elements from Trotskyite parties and something called *Armas Arminuento Socialismo*.

Then, there is another line or faction in the Cardenas coalition that is modeled more along Socialist International or European socialist lines. For example, Porfiro Muñoz Ledo seems to be enamored of Mitterrand or enamored of Felipe Gonzalez. Well, this is an interesting collection. You can see already that perhaps nowhere in the world have Marchais and Mitterrand tried to sit down under the same roof and form a unified political movement.

It is very difficult to reconcile Eurocommunist and Socialist International types, while Trotskyites and all sorts of peculiar elements get thrown into this stew. And it will be exceedingly difficult, I think, for Mr. Cardenas to form a unified political party. Of course, the \$64,000 question is, who is Mr. Cardenas? He is an ex-PRIista. He is something of a sphinx. He is not articulated in the classic western ideological sense of the word. He is like his father. His is a peculiar, indigenous Mexican brand of revolutionary nationalism.

I see him as representing the PRI of the past in some ways, some of the worst elements of the PRI of the past. These questions will confront Mr. Cardenas in the future, because this is a movement that has yet to coalesce; it is still information. It is still extremely difficult to say how these various elements will play out over time.

For example, will Cardenas pull the Eurocommunists to the center? I think we are already seeing that process. Certainly, individuals whom I will not name, but who are, for example, Trotskyites of one sort or another, find themselves having to abandon a lot of their traditional political beliefs in order to accommodate themselves to Mr. Cardenas.

On the other hand, will Mr. Cardenas be drawn to the left? The Eurocommunists can provide the cadres, can provide the organization that Mr. Cardenas does not have. So they, too, have an opportunity to be tremendously influential in what is still a rather inchoate movement.

Can they remain unified? Can Costillo and Felipe Gonzalez sit together in the same room? Can Marchais and Mitterrand ultimately

make peace with one another? There are tremendous mistrusts going on within the movement, from what I can gather.

Let me just wrap up very briefly with what some of the implications of this may be. I personally am concerned about a situation in which we would see a formally institutionalized two-party system that is tilted toward the left in Mexico.

I think that is something to be concerned about. Why? Because it will make the Mexican private sector very nervous, make Mexico more vulnerable to capital flight, and make investors less willing to invest, whether they be domestic entrepreneurs or foreign capital.

I am worried that Mr. Cardenas has not disavowed his relationship with communists in the party. It is very hard to determine what the implications for U.S. policy are, but if Mr. Salinas is to recuperate some of the PRI's legitimacy and electoral popularity, he is going to have to be able to make modernization work.

He has gambled on a set of policies, and he is going to have to be able to prove that these policies have real rewards for real constituents. Obviously, he is going to be under tremendous pressure to find a solution to the debt crisis, because Mr. Cardenas ran strong on debt. It is a great issue. It provided him with a wonderful *bandera*, a wonderful flag to run under.

There is not a lot that the U.S. may be able to do in a situation like this. This is Mexican sovereign politics. There is always the backlash effect. We open our mouths, and it has an immediate reverse effect in Mexico.

I personally would also like to see perhaps the PAN win a few when it does indeed win. I suspect that its electoral strength might have been understated in the electoral results and that Mexican electoral reality may, in fact, really be much more along the lines of a 30-30-30 situation than, perhaps a 40-40 Cardenas-PRI kind of situation.

In any case, this is a very fluid situation. We have yet to see how Mr. Cardenas will be able to consolidate himself as a permanent political actor in the Mexican scene.

Mr. Weinrod: We have been waiting very patiently to hear our commentators, our Mexican colleagues and friends who have joined us for the conference. We appreciate their patience. They have been sitting

here listening to this discussion of their internal political situation and now we would like to hear from them.

We will start with Adolfo Aguilar Zinser, a Mexican political scientist, who is currently here in Washington at American University's School of International Service.

Adolfo Aguilar Zinser: In sticking to the title of the panel, we should be discussing the condition of democracy in Mexico today. We have heard a lot of discussion about who are the political actors in Mexico and what is going on with the positions of the different actors, but frankly we have heard very little of what is actually the condition of the democratic institutions and the exercise of democracy by the people in Mexico.

First, we have to recognize, as everybody does, that the 1988 presidential election changed the landscape of Mexico in more than one way. It changed the perception of Mexico as a single-party political system.

We have to recognize that these elections have modified somehow in very concrete terms the correlation of political forces in the country. Let me just talk a little bit about this.

In trying to move away from the purely ideological description of events, it is clear that there is a shift in the center of the political discussion in Mexico. The way in which we now measure the relative strength and weakness of the different political actors is not the way in which we did it in the past, which was to see how these positions were reflected in the leagues.

The Mexican political system was describing the elites, what was the correlation of forces on the elites. That is why you have been for some time obsessed with the struggle between the *tecnicos* and the *politicos*, to try to see which one of them gained positions in the administration of power, in the structures of the state, in the different agencies involved.

Very few people in the past would measure the political strength of any group by counting votes, by popular support or levels of legitimacy, or by access to the hearts and minds of the people. We were measuring then according to the relative access to the ministries, the closeness to the president, who was with the president, and who the president was with.

That is the way we measured our political alliances in Mexico. Well, something changed in the 1988 presidential election because now we have to measure the strength of the political forces according to the popular backing, with how well they measure up in the eyes of the people.

That has to do with one very important factor that I think is relevant for you Americans to understand, that this is possible because for the first time in modern Mexican history, Mexicans in general have assigned a crucial role to the electoral process in deciding who is acceptable in the eyes of the people and how this decision should be taken. That means that for the first time in our history, we have open political competition in the electoral system, because that is the way in which it is expressed by the people.

Obviously, that does not mean that we have a political system or an electoral system that feeds that reality. Our electoral system is very rigid. It is conceived with the aim of one party winning all, with the aim of maintaining the political control of one party, and therefore it is an inappropriate political set of rules in this electoral system to allow for this very open competition that is taking place.

This is crucial because this open competition makes it possible to connect the discussion among the elites to the discussion among the people, the massive population of Mexico. If there is any possibility that in Mexico we will have a peaceful transition, it is by making this connection possible. Making the elites responsive to the people can be done only through the electoral system.

How Mexico is doing in the arena of electoral politics since the 1988 elections is very disturbing. We have seen already three or four electoral processes since the July 1988 presidential elections. I am not going to discuss what is already well known, the contentions about the results of the 1988 presidential elections, which have raised great doubts and opposition in Mexico, but there have been elections in Veracruz, in Tabasco, and in Jalisco. In these three elections, we have seen not the opportunities for the electoral process to open up but, on the contrary, a closing of the shop in an electoral sense.

In the most recent election in Jalisco, the victim of electoral fraud was certainly the PAN, and in elections in Tabasco, the victim of the electoral fraud was the FDN (National Democratic Front). We have seen the same pattern, the panic of the PRI over losing positions

through the electoral system because they believe that, by letting the electoral process flow, they will probably face what somebody in Mexico had called the beginning of the end.

The other question that has to do with democracy in Mexico has to do with economic democracy. Economic democracy has to be discussed, not in terms of ideological positions, but in terms of the central question of the political debate in Mexico: the state-run economy versus the market-run economy. The question is how the economy can address the basic social demands of the people and how the economy should redistribute resources.

You will find that there is a great deal of agreement that the state cannot do it in the same ways in which it has been doing it up to now. There is very broad criticism of the state as to running the economy. It is recognized by Cardenistas, as much as by PANistas, that the state has proved to be a very inefficient administrator of resources in many areas, but that means that dismantling the role of the state will mean redistributing economic power and the process of making economic decisions – but to whom? How is the new economy going to be organized and who is going to benefit from that?

Let me finish my remarks with a question of legitimacy. For both economic democracy and political democracy, the immediate question for those who are in power today is legitimacy, how legitimacy is going to be gained.

In the past, you did not need to be legitimate because you convinced the people that you won elections. I remember since I was a little kid, that although after every presidential election there was a widespread belief that it had not been a clean election, there was never the perception that the ruling party had lost an election.

One way or another, it was perceived that somehow they had pulled it out. Today, there is a belief among the people that if you run a completely open electoral process, the PRI will not win the election.

There are two currents of opinion there. One is that legitimacy is going to be regained by opening up the political process and proving that the PRI and the group that is in power today can convince the people that what they have to offer is something that is good for the country, but in an open competition.

The other current of opinion is that you gain legitimacy by running things well. You show by legitimacy gained on the job. You do not need

to call elections, you just need to prove that you can exercise power in ways that are convincing.

What is happening in Mexico today is that the first way of trying to regain legitimacy is the one that is being tried out. It is trying to regain legitimacy by showing that the exercise of power and authority lies with the president and is centralized with him, that the president can be sensitive to some public demands, and can address them, but that there should be no confusion about where power and authority rest.

This contradicts the possibility of an immediate political opening of the country. What would be the future of political democracy in Mexico? Well, we will have several immediate tests for that.

The most immediate are very crucial regional elections that are going to take place in the next few months. There are three which are very important, especially the elections for municipalities in the state of Michoacan, for which the PRI is getting ready by sacking its governor, and the elections for governor in the state of Baja California. In these two states, the Cardenista forces could, for the first time in the history of Mexico, gain control of the political process in one state.

There are also municipal elections that are very relevant for the PAN in the North, in which we will see again that the strength of the PAN as a political party will challenge the opportunity of the PRI to continue to control the political process in some regions.

The other scenario in the testing of political process is the coming discussions in the special session of Congress about the changing of the political laws of the country. We will see there how much possibility there is for democratic transition.

Let me just conclude by saying that the opportunity Mexico has to make this transition peaceful is changing the rules of the electoral game. That is the immediate task on which the country is concentrating, and most of the effort is going there.

I frankly do not want to see the scenario outlined by a very high official in the administration of former President Ronald Reagan in charge of diplomacy in Latin America. In some comments he made the other day, he indicated that people in the U.S. were very pleased with the approach of Salinas to the democratic transition. He called it the democratic transition with an iron hand. We in Mexico do not believe in democratic transitions with an iron hand.

Mr. Weinrod: Our second commentator will be Jose Angel Conchello, Mexican journalist and author, a representative of the *Partido Accion Nacional*, the PAN, in the government and head of PAN in Mexico City.

Jose Angel Conchello: All of you are aware of the expansion and dispersment of the power in Mexico, but nobody has looked at the roots of the cyclical movement in Mexican politics. So let us try to think in terms of the economic basis of that political earthquake. Mexico is in crisis for political reasons and has had to cope with it for economic reasons for nearly fifty years.

First, there was the populist front of Cardenas, later state capitalism, and since 1970, the new populism. For the same reasons that states were broke in Europe, for the same economic troubles that led to rectification in many congresses in China, for the same economic failure that is pushing *perestroika* in Russia, for those reasons Mexico has to rectify itself.

There is a moment in which everybody wants to receive, but no one wants to give. In Mexico, the worker state led to deficit spending. After that we went to indebtedness, and from there we went to bankruptcy. During the last three years, the federal budget shows that the revenues from taxes are not enough to pay even the yearly service on the foreign debt. All the revenues from taxes in Mexico are not enough to pay the debt, and that has to be dealt with.

The success of the leadership has two routes, one economic. PEMEX is practically bankrupt. PEMEX has a foreign debt of \$18 billion. By the way, when Cardenas expropriated Pemex, what he had to pay foreign companies was only \$800 million, and now the foreign debt payments are ten times more, or twenty times more.

The other is political. For many years, there was some sort of hidden pact between the great labor leaders, a pact by which government received captive votes from unions. In exchange for that, the leaders of the unions were able to make money with impunity.

If the government wanted to violate electoral laws, they were allowed to violate any other laws. That was the root of the expensive corruption in Mexico, but sometimes they were tools of the system, not against the system.

The present situation in Mexico is like having three different ships for people to board and see where they can go. One of them has four

captains, four different political parties forming a unified program, one of them that wants to deny the needed rectification, that wants to go back to the populist front that pushed Mexico to this beggar crisis we are suffering. Slowly, the four captains have found democratic beaches in a leader who is now world-famous for his corruption. That is one of the ships for Mexico.

The second is an overloaded, corrupt, tired ship that has taken Mexico into the position in which they should turn back or Mexico will sink.

The third, PAN, has been trying to show people during the last fifty years, that deficit spending is suicidal, that you cannot make people rich unless you give them jobs, that you cannot take loans unless you are sure you can repay them. And if you, The Heritage Foundation, say that you influence government by calling at the doors of high officials, we think we are influencing government by telling political truths in the street corners and the squares of every city of Mexico.

These are the three options open to Mexico. I am not sure who will improve, who will get more power, but I have no doubt which of them is on the right path, namely, Partido Accion Nacional.

Mr. Weinrod: Our third commentator is Carlos Sirvent, who is Deputy Director of the PRI's School of Political Training.

Carlos Sirvent: Since the 1970s there has been a change, a very profound social change in Mexico that has to do with the emergence of new urban sectors and a new movement and social uprising in the countryside. This means a redistribution of the social power from outside the political parties. It is clear that what is taking place is the participation of the citizens in all kinds of citizen organizations, and not in the political parties.

Half of the Mexican population eligible to vote does not participate in elections. Even in the last presidential election in which a higher participation was perceived, still half of Mexico's voters did not attend the voting places.

There is the fact that the political parties in Mexico have not been able to attract the attention of the voters. The speeches of the candidates of the FDN in the past election were clearly targeted to attract the vote of those who abstained. However, those who describe the political system of Mexico in terms of a corporate system are outdated

and are not recognizing that this has been left behind and that political participation in Mexico is mostly expressed now in new forms of social organization.

When Sol Sanders refers to the political system, he is, in cooperative terms, referring to an outdated thesis about the Mexican political system that fails to recognize the new forms of social organizations. Individuals seek actively to participate in those social organizations and not in the political parties.

The emergence of these new forms of social organization and of social participation has to do with the tactics that political parties are following in the elections, and these tactics can be explained in one simple proposition, the fight for democracy, and this fight for democracy is understood.

The tactic of fraud, the tactic of denouncing fraud, it is not simply a moral question. It looks like a moral question, but it is more than a moral question. It is a tactical political question.

As a tactical political question, it stems from two basic facts. One is the old custom of the political parties to negotiate. Everything is always open to negotiations, and they are used to engaging in those negotiations.

The second question is certainly the deficit in the electoral political process of the country. Those political processes are not adjusted to the new reality.

The FDN, to start with, is a coalition, a very strange coalition of dubious reputation. It has, as a coalition, two main features. One is as a tactical coalition for electoral gains, and second, the strategic character of the coalition is the rupture or the confrontation.

There are internal political struggles regarding both features. There is unity or apparent unity in the tactical intent to gain electoral positions and gain a wider representation, although there are always conflicts on who the candidates should be.

But there is a wide difference of opinion in terms of the overall strategic objectives. As a coalition by nature, it cannot have a political program. It cannot have a political program because its main characteristic is very conservative.

Let me say a few words about the PAN. The PAN is actually the second organized political force in the country. What has been said here, that the PAN is a third political force, is not true. As a political

party, the PAN is certainly the second political force in the country, and it is a party that has a well-established base. In the next few months, this party is going to confront problems.

The problems have to do precisely with maintaining its political base. The other parties are disputing the PAN, aiming for its traditional political base. On the one hand, the PRI is disputing the support to the PAN from the church and in the entrepreneurial groups, and on the other hand, the FDN is disputing the PAN's traditional support among the urban middle classes.

Nevertheless, the PAN has an internal consistency, and we will see how it does in the near future.

It is said that those interested in democracy are the majority party. Obviously, in Mexico, the majority of forces are those interested in a strengthened electoral democracy. It is precisely the PRI, the majority party, which is interested in a strengthened democracy, in making a clean democracy, because it is the only way in which the support of the majority is clearly and openly expressed.

I am absolutely convinced, that if the PRI is to maintain its position as a majority party in the country, it has to go ahead along the route of open and clean electoral democracy. This is the way in which this party could fight against the opportunistic minorities.



Luncheon Address

The U.S. and Mexico: Objectives for the New Administration

Burton Yale Pines: I am Burt Pines, Senior Vice President of The Heritage Foundation. It is my pleasure to welcome you to the continuation of this conference on the U.S. and Mexico.

A special privilege and pleasure for us at The Heritage Foundation is welcoming back to this podium Ambassador John Gavin, whom you all know for five years served as U.S. Ambassador to Mexico. During that time, he was widely regarded as one of the one or two most effective and successful Ronald Reagan ambassadorial appointments anywhere in the world. Had John Gavin had just three or four more posts, including, for example, the Soviet Union, the course of history would have been different.

We in this hemisphere think we are very lucky to have had him in Mexico. He brought enormous experience to that post. Previously he had served for twelve years as Special Advisor to the Secretary General of the Organization of American States. While in the Navy, he was posted and served in Latin America.

Since leaving his post in Mexico, he has become president of Satellite Communications with Univisa Communications Group. He serves on a number of corporate boards, among them Dresser and Arco. He serves on the board of the Hoover Institution, a cousin of The Heritage Foundation on the West Coast located on the Stanford campus. And, as a graduate of Stanford, he has overcome the handicap of his youth. The ambassador, I am delighted to say, is a longtime friend of The Heritage Foundation. He is a member of the Board of Advisors of the Heritage Institute for Hemispheric Development, and has spoken a number of times at Heritage. Welcome, Ambassador John Gavin.

John Gavin was U.S. Ambassador to Mexico from 1981 to 1986. He is President of Satellite Communications for Univisa Communications Group.

Ambassador John Gavin: Thank you. After that generous introduction I can hardly wait to hear what I have to say.

The issues that we have to deal with have been touched on already today. Basically, they are growth, debt relief, corruption, narcotics, immigration, population growth, and creation of jobs so that people may live in dignity.

These are, by their very nature and by the very nature of our existence, bilateral issues. As they present challenges, I would say that they also present opportunities. There is an opportunity at this time, for example, to reduce the burden that Mexico has in its debt servicing.

There is an opportunity for them to open the economy. There is an opportunity for them to stimulate foreign investment. There is an opportunity to reinvigorate sectors, such as tourism, which is falling, now to an unfortunate fourth place in the earning of foreign exchange for Mexico.

There was a time when that really noble business was number one for Mexico. Petroleum still is number one in spite of the fluctuations of the crude market.

Second comes *maquiladora*. Third, we estimate come the remittances that are sent back by people in this country to their friends and family in Mexico. Fourth is tourism.

I mention it specifically because I was just recently in Spain. We just acquired a transponder to take our signal down into Iberia. I was reminded that in Spain, forty million people a year visit from outside of that country, whereas, in Mexico only four million people a year visit.

Of those four million, of those Americans who form part of that four million, the return rate is very small, something like 15 percent, if the figures we have are accurate.

Mexico has a great opportunity to do something about that problem and many others, and to do it in a way that will not only create no problems, but will help develop ancillary industries and create these jobs that are so badly needed.

When I was asked to speak on the objectives of the administration, I did not quite understand whether they should be the objectives of the Bush Administration or the Salinas Administration. So, presumptuously, I put down a few notes on what I thought both should do.

I think the U.S. would do well to coordinate its policy. It is my experience that every office, every department, every individual in Washington has his or her own foreign policy toward Mexico and seems to execute it with no concern for the other offices, departments, and individuals in this government.

I think we should try to do what we can to continue the campaign to eradicate ignorance and misunderstanding and some ambivalence about Mexico in our people.

I think we need to develop a long-term strategy as compared to *ad hoc* situations. We are by nature an impatient people. We are by nature problem solvers. I believe that we need to really sit down and work out a long-term strategy that will take our relationship well into the 21st century.

I think it would be important, for example, to reach out to academia. I think a great many people in academe, although they write and speak about the relationship, really feel isolated from the mainstream of the Washington point of view. As a consequence, we find positions that are really not supportable, positions that really, with all respect for dissident views, do not focus on the issues correctly. I have found, or at least it is my observation, that a great many people in academia will espouse ideas and support regimes in Latin American countries that they would not tolerate in our own.

I would also point out to you that we are living in the fourth or fifth largest Spanish-speaking country in the world, and I am sure that that condition is going to continue.

Finally, I would say that we have a great opportunity in the Bush Administration, considering the problems that Mr. Gorbachev has indicated he now recognizes exist in his economy and in his society. We have a great opportunity to cut him loose from his surrogates outside the Soviet Union, particularly in Latin America.

If I may presume, I would like to speak about what I would consider as a good objective for the government of Mexico, the Administration of Carlos Salinas de Gortari. I would say that the most important thing that he could do — and I repeat this is simply an observation, this is simply the respectful, if presumptuous, point of view of a friend — I would say that it is time to bury the failed statist and Marxist economic models that have not worked. It is time to respond firmly and adequate-

ly to the opposition to Salinas that says, in essence, it is not that that medicine did not work, it is that we did not give the patient enough.

I think that it is time to recognize that the U.S. economy alone cannot be the engine of Mexico's development. True, we are still the most powerful economy in the world, but we are not nearly what we were at the end of World War II. If I am not mistaken, at that time we controlled about 50 percent of the world economy. Today, we are probably half of that.

I would suggest respectfully that the truth be told to the people about foreign investment in order that it might seem more palatable. Senator Gramm mentioned that foreign investment in this country was 20 percent at the time of the Centennial. I think it was even more than that between that period and the beginning of World War I.

Today, foreign investment in this country is still about 15 percent. In Canada, it is well over 35. In Great Britain in West Germany, it is about 30 percent. In Australia, it is more than 55 percent. In Mexico, direct foreign investment in that part of the economy that is not owned by the state is, by Mexican figures, 4.2 percent.

Of that 4.2 percent, the U.S. has only a small portion — just 2.8 percent of the direct foreign investment in that country. So when you hear the attacks that the gringos and the multinationals are overrunning Mexico, that is not true and people should not be misled about that.

It is time to set the record straight and speak with honesty and directness about that. I think that is an opportunity and I think it should be an objective, with all respect, of the Salinas Administration.

I think that it is time for Mexico to move to a global perspective. Mexico has joined GATT, and that is going to be of great benefit in the long run. Mexico should consider, as Senator Gramm indicated, and I realize the difficulties both real and psychological that exist in doing this, but I think it should consider sometime down the road a North American accord, the participation of Canada and the U.S.

I think more than anything it is time to recognize and to promulgate that Mexico is willing to take its position as an important country, a country of 85 million people, a country that with all its troubles, is still one of the twenty largest economies in the world. It should be known that Mexico is ready to take its position as a mature country and is ready to have a mature relationship with the U.S.

Mexico makes a great mistake, with all due respect, to continue the name calling in the United Nations' resolutions, when it is not valid and is not indicated. No one here, certainly no American, can for one moment propose that we should have unanimity of opinion.

No American can think for a moment that we are going to always agree, but if we do disagree, let us do it in a respectful way. Let us respect each other. Mexicans demand that we respect them, as well they should. We ask simply that the respect be a two-way street.

It is important that the Mexican government, as a government, take into account how information goes back and forth and what we say about each other officially.

In 1986, after I had resigned and come home, I was asked to testify on the Hill. At one point, at Senator Helms' subcommittee, I was asked if President Jose Lopez Portillo was not one of the richest men in the world. The record will show that I responded that there were allegations to that effect made by certain Mexicans, but that I did not think it was my place to respond. I am paraphrasing what I said, but it is in the record. Look it up.

All of the representatives of the Mexican papers here in Washington got the story right except one fellow from *Excelsior*. In *Excelsior*, it said that I, Gavin, had said that Lopez Portillo was one of the richest men in the world.

I did not even know about that. Then I got a call from Bob de la Madrid, former governor, all excited, Jack, gee, the paper, this, that, and the other thing, Lopez Portillo.

"What is the matter, Bobby?" He told me. I said, "Well, Bobby, that is not true. Let me tell you the people that were there. First of all, everybody was there from the Mexican embassy. The DCN came up to me afterward and said thank you. Lutez Kirschner, who was then the PEMEX fellow here, came up."

I realized what he was talking about and I said thank you. Porfiro Castanare came up and said thank you very much for what you did for us and for Mexico.

I said, "Bobby, I can't possibly have said that with these people saying thank you to me. Now, please look at the record." Well, JLP is very, very upset. I said, "Well, tell him the truth." He calls back and he said, "Well, he says he has written you a letter." I said, "Fine, I will answer it."

He said, “No, no, it is an open letter, he is going to publish the letter.” I said, “Bobby, he is going to make a fool of himself, tell him not to, because you have got to see the transcript.”

He calls back and he says, “It is too late, the letter has been sent.” I said, “Bobby, he was president. I am sure he can recall that letter.” In any event, he did not. The letter said that I had libeled him. The letter said that he challenged me to a duel.

Anyway, it was an unfortunate situation. Within a couple of weeks I was able to get a copy of the transcript and send it to him. I first sent him a letter saying “You have made a mistake. I think it is unfortunate, but I think you ought to send me an apology and I think you ought to publish it with the same prominence you gave to the letter.” Nothing happened.

I sent a letter, then, with the transcript and said, “Read the transcript. Now, may I hear from you?” Nothing.

Finally, I sent him a letter saying, “Well, if we do get to this libel suit you mentioned in your original letter, I want you to know we are also going to have a case in the United States and I want you to know that in the United States courts, truth is a defense, and we might want to run an asset check.”

“And it is unfortunate and really what I am going to do is just forget about it. I think you have embarrassed yourself and your people have been embarrassed enough, and that’s all.”

Why have I told you these stories? I always liked JLP. I got along with him wonderfully, even when we had differences of opinion. I enjoyed my time with him. I always came with a handshake and an *abrazo* — I repeat, even when we did not agree on issues.

In 1981, I tried desperately to save him from raising the price of oil, which they did by four dollars a barrel, because it had been lowered responding to market prices, and they fired him and raised it back up. I tried to tell JLP that oil was fungible and that it was a market problem, not an economic problem, and, God knows, not a political problem.

But even when we had those differences, we got along fine. I felt terrible because it happened, but he had been taken in by the very system that may have supported him, a system that means that we speak past each other and sometimes we speak past each other in untruths.

That must stop. We have to be mature with each other, respectful of each other, and honest with each other. The border not only unites us.

I have said often, and I repeat it here, it unites us in a marriage without the possibility of divorce. It behooves us, therefore, to deal honestly and even affectionately with each other.

This is difficult to achieve if you have a tradition of bigotry, of prejudice, and ignorance on both sides. We must bury these things. We have allowed ourselves to be separated by our differences rather than be enriched by them.

We must, as we approach the 21st century, change our perceptions of each other. We must recognize that we inhabit not just the same neighborhood but the same dwelling and see each other, therefore, not as neighbors, but as what we are, brothers and sisters, and above all, as friends.



Panel II

Economic Growth in the 1990s

Mr. Weinrod: The moderator of our second session is Norman A. Bailey, a longtime and well-known expert on international economic issues, in government and in the private sector. We are very pleased he could be with us to moderate this session.

Norman Bailey: Our first presentation is by Luis Pazos, political economist and author in Mexico, head of the Latin American Integration Institute and the Research Center for Free Enterprise.

Luis Pazos: The external vision of Mexico's problems is generally different from its real situation. The majority of foreign analysts measure Mexico's problems in terms of the sum of its foreign debt, its capacity to export goods, and the rise or fall of its petroleum prices.

Many people think if we have a good renegotiation of the external debt and the petroleum prices go up, we solve all of our problems. To the contrary, if the price of the petroleum goes down, and we do not have additional resources from outside, the economy of Mexico will have a bad time.

Mexico's economic problems would not be solved even if its foreign debt were forgiven and the price of oil rose to \$40 per barrel, because little can be accomplished under the present legal, economic, and political system. That means if we do not realize internal change, it does not matter what help we receive from the outside.

The problem in Mexico is not only that we are underdeveloped. It is that we go backward. The question that arises is why. It is clear that the problems are internal and they began eighteen years ago, when the government began to take companies, began to use the budget deficit as a tool to grow. What were the results?

During the last six years, the gross domestic product fell at an annual average rate of 0.3 percent and the average per capita production at

an annual average rate of 2.7 percent. The price of labor fell approximately 45 percent.

Now if the problems are internal, we have to solve them internally. For example, many people think, as in the government of the United States, that if they give money to the Mexican government, they are not going to have problems south of the border — more money, no problems.

This problem of Mexico has not been the lack of foreign resources but their mismanagement and the ease with which banks and international organizations have supplied them to our government. Lopez Portillo managed more than \$48,000 million in oil exports, an amount three times the foreign debt he had when he started his administration. He had ample opportunity to pay off the entire foreign debt, to make strong investments, and to increase international reserves. But instead of paying, the debt he petitioned for loans which in the duration of his term amounted close to \$40,000 million. In sum, the Lopez Portillo government disposed of more than \$87,000 million in oil export and foreign credit holdings.

This debt has no consequence whatsoever in growth or the creation of new jobs. Many think our big problem is external debt, paying interest to the Bank of America or the Chase Manhattan Bank. This is another misunderstanding.

Our main problem is our internal debt. During 1984 through 1988, the high levels of public spending and the decrease in petroleum prices were compensated by placing government bonds before the general public. One of the main causes of the lack of economic growth in Mexico in the last six years has been the massive percentage of savings bound toward financing the public sector and the reduced percentage channeled into productive enterprise.

Thus, while in the 1950s and 1960s more than 80 percent of the savings was being allocated to productive companies, in 1987 and 1988, approximately 80 percent of savings was instead destined for the public sector, with the remaining 20 percent to the private.

I want to point out that these figures are approximate because in Mexico, sometimes the government gives some figures, later they give other figures. I do not want to argue that these are the chart figures, but they basically are true figures for the public sector. The savings in question, while they enabled the government to keep spending at high

levels, nonetheless generated a heavy interest burden, which became its main source of expenditure.

It is false to affirm that the foreign debt constitutes the primary obstacle to balanced public finances and growth. According to the most recent available data, for each peso the government spent on the national debt in 1988, 21 cents were assigned to pay the foreign portion, whereas, 79 cents went to cover the internal one.

In the 1989 budget, it is estimated that for each peso spent 60 cents will be used to service the debt. But of those 60 cents, only 13 will be used to pay the foreign debt and 46 will go toward covering the internal one. In other words, close to 22 percent of the total resources bound toward payment of the national debt will be used to cover the foreign portion, and close to 77 will go to pay the internal one.

Foreign credit will prove to be of little consequence if we do not change or we do not pay the internal debt.

One of the central points now of the problem of the government's so-called pact is only to buy time. In 1988, the government looked as though it was fighting against inflation, but the truth is, it had a price freeze and price control over the dollar price.

At present, the government wants to give the Mexican public the impression that the key to overcoming our problems lies in a renegotiation of the foreign debt. The government strategy is to cement public opinion and thereby obtain popular backing in regard to the foreign debt. But that is not a solution. The goal to control inflation and achieve real and lasting economic growth is not subject to renegotiating the foreign debt, but rather to the following:

First, the banks must be reprivatized. At present, more than twice the amount of Mexico's financial resources in deposit in the state-owned banking system are in deposit abroad.

Second, the greater part of the relatively few resources in deposit in Mexican banks and security brokerage firms are currently destined to finance public spending instead of productive companies. This is one of the causes for the lack of economic growth.

Third, interest payments to Mexican savers, not interest on the debt owned to institutions like the Chase Manhattan Bank, is the principal source of the government's expenditures. In fact, income gathered from all internal taxes in 1989 will not suffice to cover this year's service of the internal debt.

Four, in order to diminish the rampant misery in the rural sector, it is necessary to stop the agrarian reform. In 1960, 13 percent of the rural working force received earnings amounting to less than the minimum wage. In 1988, it is estimated that the number has grown to approximately 90 percent.

Five, foreign investment in Mexico is low despite its happy geographical location and low wages. The causes are the cumbersome and highly bureaucratic foreign investment laws. This has to be changed.

In conclusion, Mexican Government officials contend that they need \$7 billion in new credit per year during the next six years in order to reach an annual average growth rate of 5.1 percent and keep their foreign credit obligation. That is false. In the last eighteen years, the new and rising foreign debt has not only failed to generate economic growth, it has positively impeded it.

In the absence of a real privatization and liberalization of the economy, fresh new loans obtained from abroad will merely allow the government to postpone problems without making necessary internal changes. The true set of options before Mexico is to reprivatize the banks, break with the government's monopolistic control of so-called strategic and primary sectors, restore private ownership in rural areas, end the redistribution of land, repeal laws that hinder the inflow of foreign capital, and modify the constitution as well as legislation that creates uncertainty and limits private property.

If these internal changes are made, Mexico could reach annual growth levels close to 7 percent without the need to ask abroad for another penny more. Moreover, this would not merely permit Mexico to pay the interests of its debt, but also to dispose of sufficient resources to cover part of the capital.

If these changes are not made, however, any further inflow of fresh credit will fail to produce any positive results for the Mexico. At most, it will merely allow the Mexican government to postpone the problems for a certain period of time, problems that could later explode with more damaging and devastating force.

Mr. Bailey: Thank you very much, Luis. That should bring about a substantial amount of interesting discussion.

The next speaker is Edward L. Hudgins, Ph.D., who is the Walker Senior Policy Analyst in Economics and Director of the Center for International Economic Growth here at The Heritage Foundation.

Dr. Edward L. Hudgins: I am going to talk about international economic policy and how it might affect Mexico. Obviously, I am going to focus more on U.S. policy. We have to start by asking what is the cause of the economic dilemma in Mexico. I would like to associate myself with the remarks of Senator Gramm and with some of the other people who have spoken here, that the main cause is not the debt, as such.

The main cause of the economic problems of Mexico is clearly the political-economic arrangement down there, an arrangement in which the government has controlled foreign investments and, indeed, discouraged foreign investments and prohibited majority ownership. Therefore, the Mexican government has had to borrow.

Trade protectionism by definition, of course, lowers living standards, and it also lowers productivity and GNP by diverting labor and capital into less valued areas from more valued areas than if you had a free trade situation. Trade protectionism is simply a form of extortion whether it is practiced by the U.S. government, the Mexican government, or any other government.

State control, government bureaucrats' control, and the union controls of most aspects of the economy has created economic inefficiencies and has destroyed the possibility of economic opportunities.

I had an interesting experience. I was recently in Juarez and I was talking to the manager of a *maquiladora* factory, one of the special order factories that are actually doing quite well.

He said he had 1,600 workers in his factory, and he said he could put 400 more to work the next day if he could get them. The question of labor shortages in Mexico is interesting. Why is that? He said that there is not enough housing and that transportation is very poor, so workers have to take an hour and a half to get to work by bus.

I asked why the businesses do not get together and start some kind of shuttle bus system, as American businesses might do, or why the black market or the informal sector has not taken up the slack? Of course I got the answer I expected, that the government and especially

the unions control all public transportation and that this kind of activity would be frowned upon or it would be absolutely prohibited.

This is an interesting example of how 400 more people could go to work in this factory. If the government began certain reforms and opened up the market, it would not only create those 400 more jobs, but probably more jobs across the board. They would probably have even more jobs for bus drivers.

The people are competent and capable. That is why, when Mexicans come to this country, they do quite well. They have the opportunity. Whether they are educated, whether they have college degrees, is not the issue. It is the economic opportunity that is the issue.

Therefore, my second set of remarks concerns the approach to this problem internationally. We have heard a lot of talk about what needs to be done inside Mexico, but what should be the attitude of the U.S. government or other governments or international bodies?

The question should be: How can U.S. policy promote economic prosperity and growth through economic freedom, property rights, and individual initiative?

Part of the problem here is that U.S. goals have been mixed. In terms of the international lenders, the IMF, for example, their goal has been to deal with balance-of-payment problems. In some cases, that helps the Mexican economy as a whole. In other cases, it does not. Austerity, as such, is not the answer. This may allow the government of Mexico, as well as other governments, to meet some of their debt payments, in the short term, but in the long run it can leave them impoverished.

Some of the policies that are often implied, if not actually enforced by the IMF, might include tax increases, which in a country where private enterprise is not predominant penalizes the few productive people in society. If you punish the productive sector, you are going to get less of what you want. So that sort of approach is not very good. The World Bank has not been a sterling example of promoting economic growth either.

The Reagan Administration's approach to the problem again has been mixed. The Administration approach, the so-called Baker Plan, was 1) to get the IMF and the World Bank and some of these other organizations to turn more money over to the debtor countries; 2) to get more money out of the private banks as well; and 3) in return, to

get market reforms in Mexico, as well as in other countries such as Brazil and Argentina.

The results have been rather mixed. First of all, the IMF and World Bank indeed have turned over more money, but the private banks have not, understandably, so in terms of economic reform, it has been a very mixed record. In Brazil and Argentina, the situation probably has degenerated. I think you can see the incentive that foreign aid often sets up for a country. In general, foreign aid — certainly IMF and World Bank handouts — does not do a very good job. Handouts do not get to the crux of the problem.

In Mexico, though, you have an interesting situation. What you lack in these other countries is political will, that is, the desire of the leadership to say, okay, we are going to change our economy. You now see in Mexico some development of just this sort of political will. If you look at the situation in Mexico, you find, for example, debt equity conversion — which I think is a good way of dealing with part of the debt — but you also see other reforms.

You have seen a small amount of privatization. Numbers are very hard to get and quite often I have found they do not add up. The Mexican government might say they privatized this or that, but it was difficult to track down the data.

So it is not easy to say exactly what is going on, but I have seen real results, at least small results moving in that direction. Certainly in the trade area, there has some real liberalization.

But we do see a pragmatic Mexican government deciding to move in the right direction. But, again, it is a matter of political will, a matter of opposing the forces inside the economy that benefit from the current system which is corrupt and bankrupt.

How does foreign aid fit into this? I think, at best, the kind of loans that we have given Mexico, the kind of handouts we have given Mexico marginally could provide some cushion for certain leaders, and it could provide some breathing space for reforms. But quite often the foreign aid money is misused anyway. Yet I hope the Mexican government will take advantage of what they have had and again show the political will to revamp the whole economy, which is the only thing that is going to bring about real economic change.

There is still the problem of corruption down there — corruption that is simply a manifestation of a statist system. If you are an ambitious

person and if you are prohibited or if your options of prospering through your own activities and engaging in mutual trade with other people are cut off because you do not have a market system, then one option is to take a government job and sell the one commodity that you have that other people are willing to pay for, and that is a political favor.

Similarly, the people who pay the political bribes have an incentive to do so. Again, this becomes part of the social system, it becomes part of the political system, because people who get those jobs are usually politically well connected. Of course, that pulls down the economy.

We must openly discuss these issues and send ideas to Mexico. People like Luis Pazos have done very good work on the economy, and while you need a *glasnost*' in Mexico, you need the same thing up here. You have to have Americans and other foreigners talking honestly about the problems, because ultimately it is going to be the change in ideas in the younger Mexicans, the younger generation, whether they come through the PRI or in through the PAN, who in the end are going to change the system.

Mr. Bailey: Our third speaker is Joseph Blatchford. Currently with the law firm O'Connor and Hannon, he has had extensive commercial and political experience in Latin America, serving in both the Nixon and Ford administrations.

Joseph Blatchford: Mexico today stands on the brink of becoming a major economic industrial state. The causes that prompted Mexico's decision to turn around its economy are difficult to pinpoint. The change of thinking probably emerged around 1984 with President de la Madrid's decision to dedicate the second half of his term to opening up the Mexican economy, which he ultimately left as his legacy.

As we all know, the U.S. is and has been Mexico's largest trading partner, absorbing 60 percent of Mexico's exports and supplying 65 percent of Mexico's imports. This, of course, shows you how interwoven the two economies are.

As the world's largest national market, the United States has provided enormous opportunities for others' access to this market, which has raised the standard of living in many countries, particularly in Asia, over the last several years.

Despite its proximity to the United States, Mexico has failed to take advantage of this market. So let us look back at what happened and at why Mexico failed to do this.

Mexico relied on high petroleum prices and oil revenues to fuel its economy and finance the necessary imports, and it became one of the most highly protected economies in the world with huge import barriers and numerous licensing regulations to protect its own industries. With its heavy reliance on oil, Mexico was slow to develop nontraditional exports — except for exporting its people as cheap labor to U.S. industries. One exception, of course, was the *maquiladora* program along the U.S.-Mexican border, which expanded rapidly and resulted in the increase in job opportunities in Mexico and low production costs for U.S. factories. While the *maquiladora* is the second largest source of foreign exchange in Mexico, \$1.6 billion in 1987, it has not created Mexican industries that manufacture for exports to the international market. In other words, there is no real technology transfer.

Therefore, with the decline in oil prices and its huge international debt, Mexico first chose to reduce its imports dramatically and to implement austerity measures so as to meet its interest payments. Meanwhile, the real earnings of Mexico's labor force have decreased substantially.

The ideas of the free trade zone and some kind of integration of the two economies have been talked about a great deal for some time, but have never been taken seriously. I suggested ten years ago to the Mexican government that they negotiate something like the Canadian-U.S. auto parts agreement of 1965.

Ronald Reagan, in his campaign in 1980, talked about a North American accord and the integration of the economies, but oil was still king and new discoveries were made and statistics about new reserves were released. Mexican trade ministers boasted of major petrochemical industries, which were being built up to penetrate U.S. markets, and this incited fear among U.S. industries for what a Mexican economy, driven by cheap energy prices at home, could do to the American economy with its huge labor costs and high energy costs.

While the oil industry was still booming, Mexico recognized the need to export and began subsidizing its new industries for exports. The reaction in the U.S. was swift, with thirty countervailing duty cases filed by U.S. industries against Mexican exports.

Since Mexico was not a member of the GATT, there was no injury test at the International Trade Commission and duties were levied on all the Mexican goods. Mexico's new president at the time, de la Madrid, who had been planning minister and architect of the oil boom, took over as oil prices dropped, interest rates were high, and the U.S. was in recession. The foreign debt grew, and U.S. industries sought protection against Mexican imports.

It became obvious that Mexico had to grow out of the crisis and that future growth had to be led by nontraditional exports. In other words, it was imperative that trade barriers come down.

So, beginning in 1984, Mexico made several moves in this direction. In April 1984, a bilateral agreement on subsidies and countervailing duties was signed to ensure an opening in the U.S. market. Then, in August 1986, Mexico joined the GATT and instituted sweeping and dramatic liberalization of import barriers. In November 1987, Mexico signed a bilateral agreement for consultations called the Framework Agreement. This emphasized liberal trade and investment and provided a mechanism by which each side could consult with the other to prevent any surprises or government-distorting practices.

By this, the U.S. and Mexico agreed on reduced Mexican tariffs and official reference prices on steel imports, and opening the U.S. market for Mexican steel products, and called for a 6 percent increase in the U.S. quota on textiles and apparel from Mexico, along with more access for U.S. textiles into Mexico's markets.

Mexico is currently the sixth largest supplier of textiles and apparel to the U.S. market. There is the opening of the Mexican market to the U.S. for beer, wine, distilled spirits, certain farm seeds, and other products, including confectionery chocolates. This is going on and trade is increasing, in fact, trade is booming. Although Mexico still relies heavily on oil exports for its revenue, which accounted for 75 percent of its exports in 1981, oil was down to only 35 percent of exports in 1988. Mexico is the world's fifth largest oil producer and averages 2.5 million barrels a day.

Aside from the international and traditional oil exports, Mexican exports to the U.S. are increasing. In the first half of 1988, they grew by 18 percent, with a particularly strong performance by the automotive sector.

U.S. exports in the first part of 1988 rose by 35 percent, thereby narrowing the trade gap between the two countries to about \$2.5 billion, down from \$3.1 billion. Two-way trade for the first half of 1988 was \$21 billion and it continues to grow now. So it may be at the takeoff stage. Just as Mexico has opened its economy and liberalized its trading system, the U.S., with its massive trade imbalance, principally with Asia, decided to get tough with its trading partners.

The U.S. demanded more open markets in Asia, and Mexico had opened up on its own. With a persistent trade deficit and mounting foreign debt, the U.S. needed to export. U.S. exports to Mexico, as I said, were way up.

The U.S. companies feel that, if they cannot recoup their R & D costs on their high-tech items in the areas of pharmaceuticals, computers, and so forth, the foreign governments will not protect their patents, trademarks, and processes.

So, the U.S. argument goes, if we are going to take your cement and steel and your basic industries, and our economy shifts to high technology, computer software, and information data systems, then we need to have protection. This is going to be one of the major issues in relations with Mexico.

Even a year before passage of the omnibus trade bill last year, the U.S. started getting tough with Mexico on this issue. They knocked thirty-four products off the tariff preference list for Mexico's failure to shorten the period of time to implement the new trademark and patent law.

Countervailing duties are still being assessed on thirteen Mexican products even though it is illegal under Article 6 of the GATT and U.S. trade law. They have not dismissed these. In the privatization program, Mexico privatized a company and sold it to a private company. It had a 55 percent duty, and the private company has taken two years trying to get that duty knocked off, because a private company takes no subsidies. It has taken two years, and they still have not finished the review over at the Commerce Department.

Thus, in spite of the consultative mechanism, the frictions still remain. Future actions could include 301 actions against unfair trade practices. This could be foreign investment laws restricting foreign investment or it could again be the property issue. One of the major

areas that the U.S. may go after is foreign investment in areas of chemicals, pharmaceuticals, alloids, and biotechnology.

The Senate defeated the House-passed resolution to declare cheap energy prices as illegal subsidies, which would have devastated Mexico's export trade. Still they mandated a study by the International Trade Commission, which will begin this year to try to figure out whether U.S. companies have access to lower cost energy in Mexico. They will try to link that with any foreign investment restrictions and take retaliation against Mexico depending on what they find.

For Mexico to grow out of its debt, it needs to export more and it needs to attract more domestic and foreign capital. So I expect the Mexican investment law to come under attack. In this regard, obviously, the Mexican government feels it is wonderful for Mexicans to work for U.S. companies as long as it on the U.S. side of the border, not so welcome if they work on the other side. That will be a touchy point.

To summarize, Mexico should get more involved in producing high-value items, not ones that compete with, but ones that complement, the U.S. economy. The Bush Administration and Congress have to maintain the consultative agreement, enlarge it to include the integration of the economies, first on a sectoral basis (perhaps wood products, auto products, auto parts). They should dismiss countervailing duty cases, guard against protectionist actions by specific industries, restore original competitive need limits for Mexican exports under the GSP, and of course, work with Mexico to ease its foreign debt burden, freeing up foreign exchange for much needed social programs and for import of intermediate goods, which could be the components of future exports.

Mexico has to diversify its export base, increase its productivity and efficiency at home to withstand the possibility of a worldwide or U.S. recession, and create a climate that will lure technology and allow foreign investors to take advantage of Mexico's enormous potential in natural resources and labor force and the emerging managerial class.

Eventually, as these steps are taken, they will lead to an integrated economy including the U.S., Canada, Mexico, the Caribbean, and Central America by the year 2000, and perhaps as we discussed, to a hemispheric trading zone by the year 2010.

Mr. Bailey: Our first commentator will be Juan Cintron, a prominent industrialist in the State of Morelos, Mexico, who is President of the Board of Directors, Grupo Cintron.

Juan Cintron: As I listened to the speakers this afternoon, I get a message that we have to carry on some changes, starting off with the privatization of the banking system. To Mr. Hudgins's and Mr. Blatchford's comments I would like to point out some things that, in fact, have already occurred, but also some things that move us on into the next century, up to the year 2010 and beyond. We in Mexico in the business community realize that Mexico must change — its thinking, its attitudes, and, yes, its habits or way of doing things. Two things are extremely important if we are going to have sustained long-term economic growth.

Those items include, of course, confidence. We need to have confidence in the productive sector of the country. Secondly, once having attained a degree of confidence, we must be willing to do things within the country and eliminate capital flight, and so on, then become productive at what we do in Mexico.

In order for this change to come about, there must be a change in the way in which we educate our young people in Mexico. The changes that we are asking for are quick changes, so that we can see quick solutions. But usually those quick changes are not very long lasting, as we know from our experiences here in this country. In order for substantive change to occur within a country — and Mexico is not an exception in this case — we must make substantial changes in our educational process, starting with the young people who are coming along today.

I think that this idea has been absent from all the comments that I have heard, maybe, with the exception of Mr. Hudgins who did refer to the fact that the changes in the system are going to be made by the young people in the year 2000 when they are ready to take over the reins of the political system, of the economic system, and of our businesses. In order for that to happen, we must begin to change the educational system within the country whereby we dignify once again — because we did at one time in Mexico — the work ethic, which proclaims it is an advantage and virtue to be employed in a productive manner.

We have had many situations in our companies where our people come to work in Mexico for the purpose of earning some money, so that they can satisfy some of their basic needs, but not necessarily wanting to do it with a sense of quality, with a sense of productivity. We feel that the reason that that occurs in our system is that the educational system produces that kind of an individual.

In order to survive in the coming century, Mexico must become a competitive society. Yes, we are one of the twenty largest economies of the world. I believe the most recent figures are around fourteenth, but yet, that is not good enough for a country that, by the end of the century, will have approximately 100 million people, 100 million people who need to have an opportunity to satisfy, not only their basic needs, but to move beyond that level. In order to achieve that, they must be given the tools from an early age through the educational system that will engender within them a desire to want to dignify their lives through the productive work process.

We have not done a very good job in our educational system in that sense. In Mexico, we are very supportive as a business community at the present time of a program that I have the pleasure to be involved in a special, which is aimed at working with grade school, middle school, high school, and even university students to help them to learn to understand how they can become productive members of society within Mexico and creating jobs for those individuals who have the leadership capabilities and characteristics, so that they can contribute within Mexico to the development of Mexico, and not try to solve their personal problems by leaving Mexico.

It may not seem very reasonable to say this as businessmen in Mexico, because sometimes we are accused of only looking at the short term in our quarterly reports and what has happened to the value of our stock in the last day or two. But the fact of the matter is that, as responsible Mexicans and as responsible businessmen in Mexico, we are fully aware that, if Mexico is going to become a country that will sustain growth, back to 6 percent or 7 percent level, it must return to a way of looking at the development of the society through work, through productive work, through quality work, on a competitive basis as it did in the 1940s, 1950s, and 1960s, when we had 8 and 9 percent real annual growth with a foreign debt of not much more than about \$3.5 billion.

As a final point, it is interesting to note that the current government of Salinas de Gortari, in one of its first, if not in fact its first, public calls to the citizenry echoed exactly this theme. The government is calling all of the various sectors of society to come forth and provide ideas and provide new techniques, or old and good techniques, that will help the country achieve that long-lasting growth that it so desperately needs. Looking at it from the Mexican point of view, I believe it is also the growth it deserves.

Mr. Bailey: Our next commentator is Sergio Sarmiento, who is the Editor-in-Chief for Spanish language publications for Encyclopedia Britannica and a financial journalist for many periodicals and newspapers throughout the Western hemisphere.

Sergio Sarmiento: Dr. Samuel Johnson, who was an 18th century writer, once described second marriages as a triumph of hope over experience. I think we Mexicans are perennial hoppers, or at least cyclical hoppers. Once every six years we start again, hoping against every experience that we have had in the past.

We have done that after Diaz Ordaz Administration, after the Echeverria Administration, after the Lopez Portillo Administration, and even after the de la Madrid Administration. We are now in one of those hoping periods, hoping that by the year 2010, we will indeed be in the position that has been described by Mr. Blatchford.

The situation, though, is not quite clear-cut and perhaps we should not be as hopeful as we are right now. Everybody has been talking here about elementary changes, how the economy has changed over the past six years.

What have those changes been? We have talked about trade liberalization. It is a well-known fact that Mexican trade has been liberalized. Sometimes it is difficult to know, however, exactly what sectors are being liberalized and how they are being liberalized.

The Mexican government usually provides figures to the effect that 8,000 product lines have been liberalized, that they do not require licensing anymore, that the average tariffs have been lowered from 50 percent to 10 percent. All of those figures are correct but sometimes the product lines do not actually show us how important a specific product can be for the entire economy or for trade itself.

Let me give you some examples. Trade has been liberalized in consumer items. I was telling some friends just recently that I bought a bottle of Spanish wine around the December 15th. In Madrid, it would cost me 800 pesetas. I had the same bottle of wine in Mexico, and it cost me 700 pesetas. So it cost me less in Mexico than it would have in Madrid.

That means that these kinds of consumer products — wine, toys, other products — have been liberalized. This does not mean that some very basic products and intermediate products have been liberalized in the same way.

The Mexican government has managed to protect its own industries at the same time that it has been liberalizing the game for everybody else, so that it expects a company in Mexico that produces goods out of steel to be competitive against such a company in Taiwan, in South Korea, or in the United States. But that does not mean that they will allow this company in Mexico to have access to steel in international terms.

Sometimes just the fact that the restriction remains can be detrimental to the development of a product. It happens very frequently in Mexico, for example, that even if you can get a product cheaper from the government, that does not mean you can get it right away.

You all know that if you are really in a competitive environment, you have to be able to get these products right away. You have to be able to go to different suppliers, and sometimes you will not necessarily choose the cheaper one, but you will choose the one that is going to give you the product at your plant at the right time.

Now, the Mexican Government, although it has liberalized again for many in the private sector, has not liberalized the game for many basic and intermediate products. It might be just a few lines of products that seem almost unimportant when you look at them on a table, where you have a list of products that have been liberalized, but the impact on the economy can be substantial.

So trade has been liberalized in one way. In Mexico, we are allowing imports of basic consumer products, but we do not necessarily allow exports. This does not seem like something very tragic, but it could be very tragic.

What happens to, say, meat produced in Chihuahua or in Sonora? The government can import meat, and in fact, the government does

import meat in order to stabilize prices. But it subsidizes these imports of meat – not the exports, but the imports – and in fact, bans the producer from exporting to the U.S., which is a market that is even closer to the exporter's home base.

What is the end result? The production of this basic product begins to drop. We have seen that effect in Mexico in many basic consumer items, like meat and milk, which have simply disappeared from the market.

They disappeared from the market because the government imported products to stabilize prices. It did not allow exports, so that producers could take advantage of higher prices in the U.S. or in other countries at the right time.

The basic result has been a drop in production in all of these lines. One example, and a very painful one, is milk. Prices for milk, which are subject to control, were raised 30 percent on January 1, but the milk industry has been crying for price relief for a long time.

By the time these prices were raised, there was no milk on the market, and even though they were raised 30 percent in January, this has not meant that there is now milk in the market. You cannot find milk in Mexico City or in many of the major urban areas in Mexico for a very simple reason: You cannot just recreate all of your cattle in a couple of days simply because the government has now decided to give you the price increase that should have been given many months ago, or did not lift the price restriction that was applied from the start. So, trade is being liberalized, but it is not being fairly liberalized, and I think we should take that into account.

Luis Pazos mentioned the fact that there is also a price control on the price of the dollar. This is very, very important. The Mexican government is asking Mexican producers to compete in international standards, at international levels.

It has become very fashionable right now to go to businessmen and tell them, "Okay, you have been protected all these years, now you go out and you compete. You compete in Mexico, you compete abroad." But one basic rule of this competition is that you should also liberalize the other aspect or one of your major factors in the international business that you are conducting, and that is the price of your currency.

The price of the dollar in peso terms has been frozen since early 1988. There was a cushion of undervaluation for a long time, and this

allowed the government to play with the exchange rate for a long time. This was probably necessary at one point in order to be able to beat an inflation rate that had reached 159 percent in 1987, and the result was partially achieved. The inflation rate was down by over 60 percent. The official figure for 1988 was 51.7 percent.

But as long as you are not given the same liberalization in the exchange rate, it does not make any sense to have trade liberalization. You have to make it complete.

I was saying at the beginning that we Mexicans are in our hope period, and it is good that we are hoping. I think if we hope strongly enough, we will be able to drive the point home that you cannot liberalize just one part of the economy, that you have to liberalize it all.

Mr. Bailey: The final commentator, Rogelio Montemayor, Ph.D., is a PRI Representative and President of the Programming, Budget, and Public Account Commission, the House of Representatives in Mexico.

Rogelio Montemayor: To speak about economic growth and economic options requires the answers to several questions that I have not heard from the people who have come before me.

One of the questions to ask is economic growth and economic options for what? I would say that this is a very easy question to answer.

Any economic system must be able to provide the solution to specific needs of a specific society, namely, enough employment, adequate wages and income for people to pay for the goods and services to satisfy their basic needs, and adequate use of natural resources, just to name the most important.

In this framework, I would like to make some comments on the theme of this conference. First, we could say that the main problem on the economic front in Mexico is to generate enough growth to provide employment for nearly one million young people who each year demand a job. I would like to mention several factors that run against this goal, first the debt problem.

Mexico is transferring abroad the equivalent of 5 percent to 6 percent of its GDP each year in service of its general debt. Here, I disagree with what has been said by Senator Phil Gramm, Luis Pazos, and Mr. Hudgins, that the real problem is not servicing the debt.

Senator Gramm said it was the result of GDP, or of the projects for which these funds were used. Certainly low productivity, investment,

financing with borrowed money lead to our debt problem, but I think, in the case of the present external debt problem, the situation is a bit more complex.

I would like you to remember that, at the time the greatest part of this Mexican debt was borrowed, the price of oil was about three times the price it is now. Also do not forget that, during those years, even official U.S. predictions said oil prices would be about \$40 or \$50 a barrel. At the end of 1988, it was \$10, and now it is a bit more.

We have to remember, too, that the interest rate in real terms, at the time that was happening, was substantially lower than the interest rate now. These two factors do not depend on the Mexican economy.

These factors depend mainly on what happens in other markets, especially in the United States. So I think it is an oversimplification to say that the misuse of funds is a cause of the debt problem.

It is a problem that runs deeper than that. I also want to mention that, in past years, Mexico has done its job to correct its part of the problem. We have never refused to recognize that in some part the debt problem arose because of a bad economic policy or mistakes by the Mexican government.

Just to illustrate this correction effort, let me mention that before 1982 Mexico had a negative transfer of resources from abroad, which amounted to approximately 5 percent of GDP; that is, we had an inflow of foreign capital.

In the years after 1983, the transfer has been positive, at around 6 percent of GDP. That is 11 points of GDP change in these years. To get a feeling of this number, let me tell you that it amounts to 2.5 times the investment that was made in Europe by the U.S. under the Marshall Plan after the war. That is the amount of money that Mexico has been transferring abroad in the last five years.

How is that happening? Well, that happened because of the factors that have been mentioned here, the sizable decrease in real wages and the sizable decrease of federal spending.

The budget deficit, excluding interest payments, which was a deficit program of 7 points of GDP in 1981-1982, in 1988 has surplus of about 6 or 7 percent. So that is an adjustment of 14 points of GDP.

So I want to disagree with Mr. Pazos. As you can see, contrary to what he says, Mexico is not just asking for money or blaming foreigners for our problems. We have faced the internal costs of the problems. We

have faced this budget. We have faced trade protectionism and other problems, but it is also clear that the solution needs more than that.

It needs the other actors involved in the debt problem, banks and creditor governments, to assume part of the problem. That is, we have to find a solution to sharing the losses of what turn out to be bad investments. All the actors make mistakes.

I want to make another comment on the relation between the budget deficit and inflation. It has been said here that inflation and the budget deficit are related, and I would like to mention that that relation is not so simple as that.

I think it is clear that a public deficit could be comparable to different levels of inflation rates. That amounts to saying that inflation depends, not only on the budget deficit, but also on other factors.

One of these factors that I would like to single out is regulation. Regulation certainly has to do with inflation. I would like to blend this concept of regulation with the concept of economic freedom and privatization, which have been mentioned here as almost a magic solution to all of the economic problems of Mexico and almost any other country.

I will not go deep into this aspect. I just want to mention that, being a believer in economic freedom, property rights, and so forth, I do not believe they are so magic a solution to all of our problems.

I think that we should focus more on competition and flexibility, and that it should be clear that, for example, privatization is not necessarily the answer. What we need is more competition, more flexibility, and that leads us to ask another question: How did those regulations come into being?

They did not just evolve naturally, they were the answer to a given set of relations in society, and these power relations in society had been changing because of, among other things, the changes that are going on in the international economy.

You have to do it in the United States. Keeping that in mind, I think we can work out an arrangement whereby we can get a really competitive economy that will be able to bring about the kind of growth and the kind of income distribution that we all want.

Mr. Bailey: At this point, I would like to ask the panelists if they would care to comment on each other's presentations.

Mr. Pazos: I respect what Rogelio Montemayor said. Nevertheless, I disagree with him. Suppose he gave a figure that said the budget has a surplus. He says the budget has a surplus in Mexico if they do not count the debt. In a business, if I do not care about what my debt is, it will not simply go away. If the debt is the more important expenditure of the government, the same logic applies.

In 1989, the income of the government will not be sufficient to cover this year's service of the internal debt. That means there is not a budget balance only if they do not care or do not pay the internal debt and the external debt.

There is a big deficit. In 1988, Mexico's deficit was more than 10 percent of the gross domestic product. In the United States, it was 3 percent of the gross domestic product.

Second, it is true that we sent a lot of resources abroad for the external debt interest, but I have to point out the external debt is a consequence, not the cause of a crisis. It is because the government, in the last eighteen years, used the external debt to cover its deficit spending. That is the problem in Mexico.

After World War II, Germany asked for outside resources, but converted those resources into productive enterprise. Mexico asked for outside money, but used those resources to finance the public deficit. That is a big difference.

Another thing, just to be clear, the budget deficit in 1970 was about 26 percent of the gross domestic product. In 1988, all the deficit – not excluding the debt or the servicing of the debt – was more than 50 percent of the gross domestic product.

That means it is big. For each peso the government is going to spend, they have to spend 60 cents to pay the debt. That means the money that goes to government programs is only 40 cents. That is less now, but that does not mean they have a balanced budget.

Finally, about the oil price: the fall of oil prices is always an excuse to say we have a bad economy. In the 1950s and 1960s we did not export one barrel of oil. We grew at an average rate of 7 percent each year for about twenty years, and we created jobs.

But in the last eighteen years, the only sector that created a lot of jobs was the bureaucracy, and it was a problem in Mexico. I recognize that we have a big problem to pay the external debt, but it not our main

problem, and we are not successful in Mexico if the U.S. and the Bank of America and all foreign creditors give more money to the Mexican government.

This will allow the Mexican government to have more years in power without making the right change.

Dr. Hudgins: In terms of where to get the money to pay the debt, for example, I point out that Pemex is one of the most wasteful state monstrosities that there is, and not only in terms of its output and its cost for lifting a barrel of oil. You could probably save a lot on that.

Again, the public sector is very wasteful. The numbers I have seen do show that the public sector subsidies have started to go down. I think that is a very good thing, and I hope that continues.

I also point out the importance of capital flight. How much money has gone out of Mexico, not to pay off a debt, but just because Mexicans simply do not trust their own government?

I think, again, if you have a more free market-oriented economy, then the Mexicans themselves will bring the capital back home, and this will certainly benefit the economy. You will be producing more, and there will certainly be a lot better situation. I want to mention one other thing. The comments about the change in attitudes and educating the young were right on the mark. I think that in Mexico, as well as in this country, one of the key changes that has to be made is that the realization that wealth is something that is created. It is not something that is redistributed. Wealth is not something that one person receives at the expense of another, or one country receives at the expense of another. In an economic exchange, in a market situation, all parties involved benefit.

I will take a look at that on a macro level and mention that the *maquiladora* industries create, from what I have seen, at least 350,000 jobs for Mexicans and at least 100,000 jobs for Americans. So who is the winner and who is the loser?

Well, everybody has won. Some Americans might say they created more jobs than we did. That is hardly an intelligent argument. It is as if I say, "I am going to give you a free gift of \$1,000, and I am going to give this other person \$4,000." You say: "That is not fair, I only got \$1,000." "Wait a minute," I say, "You are getting something, so don't

complain.” That is how you should think of wealth. It is something that is created, and not something that is stolen or redistributed.

It is not a zero sum game. I think that attitude, both in the U.S. and in all other countries, is very important, and it evolves from private property rights.

The freedom of the individual is an end in and of itself. In other words, it is not a matter of “How shall the government plan my life for me?” Property rights, economic freedom, and individual freedom to live your life as you see fit, to run your own life, are all tied together.

This is part of what has to change in terms of attitudes. I understand that the political situation in Mexico is very difficult. I understand the changes that the PRI especially is going through, but I think we have to speak very clearly and say, “Look, this is the reality of the situation, this is where economic wealth evolves. These are the ethical, moral, social principles that a free society should be based on, and this is the aim that we should have.”



Panel III

Strengthening Mutual Security

Dr. William Ratliff: Jiri Valenta will be our first speaker. He is the director of the Institute for Soviet and East European Studies and Professor of Political Science of the Graduate School of International Studies at the University of Miami. He also is a prolific writer on security issues and spends a great deal of his time in Washington.

Dr. Jiri Valenta: Let me start with the first point: the special U.S.-Mexico relationship. Briefly, the relationship has to be special because of the geopolitical realities – a border 2,000 miles long, obvious geographic proximity – but also because of the Mexican involvement in the regional politics as a regional power.

We have to understand that Mexican national interests, as perceived by Mexicans, are not those of a regional power. We have to cope with that and also talk about the resources, population explosion, and immigration, which of course make the economic issues very relevant to our national security.

Above all, to summarize the relationship, I believe that Mexico represents a tremendous strategic and economic asset to the U.S. because of the mineral and manpower resources and because of the relatively calm border, for the last 70 years.

It is the most critical hemispheric interlocutor for the U.S. But at the same time, serious disorder in Mexico could turn this asset into a tremendous strategic and economic liability, if you look at it in terms of real politics in the U.S.

The most secure sources of U.S. imported oil could be jeopardized if there is a major crisis in Mexico. This could also create a difficult financial situation because of the dependencies in terms of loans. Above all, the hundreds of thousands of Mexicans in such a scenario crossing the borders would create economic chaos in the southern part of the U.S.

Fifteen million U.S. citizens are of Mexican descent, and of course, the U.S.-Mexican borders are basically unprotected – the ditches we heard were being built will not do it.

In our strategic thinking, we have only recently recognized that Mexico is a key geopolitical reality and priority to the U.S. Our geopolitical priorities have always been centered upon Western Europe and Northeast and Southeast Asia. In the 20th century, we must admit that we have tended to ignore or neglect Mexico in our strategic and geopolitical thinking and have regarded it as just another developing nation because of the perception of the friendly borders. Even today most of our fellow North Americans tend to be indifferent or ignorant about Mexico.

Now, let us look at the Mexican perspective of the strategic relationship in both countries. Of course, the Mexican perspective is different. There exists a strong residue of historical resentment similar to that you find in Poland toward the Soviet Union, particularly within the intellectual circles. The resentment is toward a colossus in the north, which annexed half of the national territory, and at one point, had pretensions not only toward Central America, but toward South America.

For every U.S. school child, history is the history of how his country grew. For a Mexican or Polish child, it is how his country shrunk. The U.S. has been, in the perception of some Mexican intellectuals, a main threat. You find references to it, even in Mr. Salinas's speeches.

That is something we have to cope with to understand the Mexican sensitivity. After all, the 1848 defeat by the U.S. is a living memory. If you live in Mexico City, you can visit the museum of interventions. It is a powerful experience, particularly for somebody like myself, who came from Central Europe and who experienced another superpower's interventions.

Let us just for the record remember that the U.S. took over an area approximately equal in size to the land that remained in Mexican hands. The Mexicans, like the Poles, live with this history. They still honor Ninos, Eros, and Cardez, who jumped to their deaths wrapped in Mexican flags rather than surrender.

There are also, of course, the celebration of Cardenas, Sr., the 1930 expropriation of oil, and many other important turning points in Mexican-American history that we tend to forget, unfortunately, because after all, so many of our students do not even know that Texas borders on Mexico.

Let me go into the Soviet factor, which has been the concern of my life for the last twenty years. Soviet interests in Mexico are primarily the function of the perceived geopolitical interest of the Soviet Union in the Western Hemisphere and of the fact that Mexico is a most important country to the United States.

The Soviets actually recognized this earlier than did U.S. policy makers. The uniqueness of Mexico to the United States is stressed in Soviet literature on the subject. What Poland is to the USSR, Mexico is to the United States.

The Soviets accordingly adjust their policy priorities. They also take into account the U.S. dependencies on oil resources and the interest in the maintenance of stability.

Of course, Mexico and Argentina and Brazil are regional influences in Latin America so what you see, if you look at Soviet policies in Mexico, is that they do concentrate particularly on long-term strategic thinking, but the actual involvement is minuscule in terms of trade and commerce, and there are no military ties whatsoever. In fact, if I am informed correctly, Mexicans deny the right of the USSR to operate a new consulate in North Mexico, although I think that the one in Veracruz will be open, and they denied permission for port visits of the Soviet navy.

But in Soviet calculations, Mexican politics is related to the U.S., and also to the crisis in Central America. As the Soviets see it, and this is a Soviet perception, Mexico helped to reduce Reagan's interventionism up to 1983-1984 in Central America and thereby helped Sandinistas to survive.

That might be a simple interpretation, but it is nevertheless the Soviet interpretation. I was struck by the fact that the Soviet representative who dealt with President Salinas, a member of the Supreme Soviet of the Soviet Union, discussed Central America with him. If you look at the Soviet communique, it is clear that in the Soviet mind the Central American issue was the one in which they were particularly interested, in terms of the relationship with Mexico.

The fourth point focuses on Mexico and the Soviet Union and Cuba. I would characterize the Mexican foreign policy in general as serving two basic purposes, helping the economy and preempting the leftist movement at home by what you might call buying insurance — giving some tacit support and understanding to Cuba and other communist

countries, while trying to avert the leftist activities in Mexico, particularly the revolutionary activities.

There are a number of examples in the past, such as Lopez Matos. If you look at Mexican history, you see moves to the left to avoid enthusiasm for Castro. Lazaro Cardenas, Sr., in 1961, created a MLN (a national liberation movement) and tried to give support to Castro.

There have been a lot of other examples in the last twenty years. This policy of preempting the left did not work at all times. As you know, in 1973, the policies backfired. The Echeverria policies of avoiding problems with the left backfired as several guerrillas trained in North Korea came to Mexico apparently with the support of the Soviet Union.

You have the paradoxical situation where the Mexicans were concerned with the activities supported by North Korea, at least in terms of training, and Cubans, on the other hand, were giving advice to the Mexican government on how to cope with the guerrillas' activities.

The point is that at this time, as in the last twenty years in general, armed struggle is not regarded as an option to reach power by the left in Mexico, in part because of Mexican policies. That is what Ortega said, I thought cynically and bluntly, when he visited Mexico. In Mexico, it is not an option, but he implied that elsewhere in Central America, it is an option. Also, as I suggested earlier, Mexican policies toward the Soviet Union are motivated by a desire to increase the leverage vis-à-vis the U.S. by playing the Soviet card, as you might put it in terms of political science.

However, in general, I do not anticipate a situation in which Mexico will be used once more as a conduit à la Zimmerman Telegram to attack the U.S. We are talking about marginal movement in terms of balancing and increasing the leverage vis-à-vis the United States.

The Cardenista movement, or the Party of the Democratic Revolution (PRD), is challenging the attempts to improve U.S.-Mexican relations in the long run and to make the relationship between the U.S. and Mexico a special one. They challenge the notion of economic growth by paying the foreign debt. Even more important, Cardenas specifically challenged attempts at privatizing state enterprises and also stressed solidarity with Cuba and Nicaragua, which I think would threaten our national interests in Central America much more than de la Madrid or Salinas. It is thus in our interest to help – to put it bluntly

— President Salinas in containing the influences of Cardenas and his supporters as discreetly as it can be done.

What should be our strategy toward building a special relationship with Mexico and overcoming the difficulties and obstacles on its path?

I think, above all, we have to recognize that Mexico represents a special case and that the geopolitical and economic conditions require that Mexico be treated with sensitivity instead of benign neglect and that prosperity and stability are the goals of both nations.

Our strategy in doing such a thing in Washington should be to recognize this special importance of Mexico and translate it into bureaucratic politics, such as creating a better coordination mechanism in the National Security Council for U.S.-Mexican policies.

We also have to create a consensus on priorities and a synthesis of U.S. economic and security objectives in Mexico and Central America. Because of these conditions, Mexico must not be treated simply as another regional influence like Argentina; it should be a truly unique, special case with preferential treatment.

We also must link economics with the security. Central America should be on the next agenda of Mr. Bush and Mr. Salinas. The building of a special relationship between Mexico and the U.S. requires that we agree in the long run on broadly defined, common security concerns in the region.

Let me illustrate what I mean by common broad security interests. We must understand that Mexico also has its own regional interest in Central America. It is a regional power.

We must also understand that Mexico cannot declare a war on every U.S. enemy. It is not a global power. Its interests differ from ours. We should remember, though, that Mexico did join the U.S. in World War II, in the war against the Axis powers. Mexican air squadrons participated in the war in the Pacific.

Yet for understandable but complex domestic reasons, the Mexican government did not break the relationship with Cuba, as much as we might have liked it. And it refused to support the U.S. intervention in the Dominican Republic and Grenada. What we have to make clear to the Mexicans is that actual material support for the regional actors jeopardized the stability in Central America, such as the past material support for the Sandinistas and the FMLN in El Salvador.

I think that is not compatible with the special relationship between both countries. I think that Mexico eventually should recognize that the special relationship and large U.S. economic role can be justified not by structural reforms alone, but above all, by understanding the acceptable broad security interests of both parties.

I believe that President Salinas's advisors are aware of the long-term Mexican interest in stability in the region. His trip to Guatemala and Belize several weeks ago suggests to me the long-term strategic interests of Mexico in the region, particularly in those two nations.

We must link the economic security to our policies by forging a consensus on those issues. Of course, the linkages must be handled extremely delicately, respectful of Mexican national dignity, understanding the historical experience, overcoming the residue of historical differences by creating scholarly as well as other commissions that would deal with the past historical issues important to Mexicans. We surely must not patronize the Mexicans, yet we must indicate to them that the U.S.-Mexican special relationship encompasses these security aspects in the Caribbean basin.

While Mexican identification with the Third World is understandable, Mexico can ill afford support of the reversion of the Canal Zone to Panama, or the logistical support for Leninist forces in Nicaragua and El Salvador, all of which are part of U.S. vital interest in Central America as a global power.

We have to make Mexicans aware that we are the ultimate guarantor of the region's security against the extrahemispheric powers, and that there are those who know that, and that the falling dominoes in Central America would eventually affect Mexican, as well as American, security. It also will be very difficult for the U.S. to have a special relationship with a country that actively supports the creation of a regional security system independent of the U.S.

All in all, the economic issues should be the most important. The economic instruments that we use in our relationship should make our relationship with Mexico special instead of financing *perestroika* in the USSR. We should anchor the restructuring in Mexico for the reasons which I mentioned. By doing so, we must make clear to the Mexicans that victory for the Leninist regimes in Central America would have immediate strategic consequences for the U.S., while for the USSR, it would be only a partial defeat if that happened in Central Europe.

To summarize, we have to convince Mexicans in the long run that we are serious about restructuring our geopolitical priorities and making Mexico one of them. Then we can rebuild a relationship that is in the interest of both nations. To paraphrase Benny Juarez, "Peace is respect for the rights of others."

Dr. Ratliff: Dr. Constantine Menges is speaking on "Enhancing Mutual Security." He is a resident scholar at the American Enterprise Institute, was a special assistant to President Reagan on the National Security Council, is an author of a recent bestselling book on the National Security Council, and has had a long and intensive interest in Mexico.

Dr. Constantine Menges: I am going to start by saying I agree with Dr. Valenta's basic point, that the political and economic aspects of the U.S.-Mexican relationship have to be brought together, but let me come to that by starting with a few thoughts about the new opportunity that we are facing now.

I congratulate The Heritage Foundation for its important program in the study of Mexico. I think for many of us who have lived and worked and traveled in Mexico, and studied that interesting and important country over the years, there is a feeling that one of the most important things we can do to build better understanding and cooperation is to know more and understand more about Mexico, its reality, its history, and its future.

I think The Heritage Foundation's program and studies on Mexico and that of the Center for Strategic and International Studies here in Washington is making an important contribution.

I am delighted that they held this conference right now, at the time when there are two new administrations beginning, one in Mexico and one in the United States. I think that provides a real opportunity for an improvement in the relationship that even now, as we know, is friendly and cordial.

Certainly, President Bush shares with former President Ronald Reagan a strong understanding of the importance of good relations with the people of Mexico. I think it is worth noting that his first meeting with a foreign head of state was with the President-elect of Mexico, an important symbolic act. One that is also worth remembering is that President Reagan made sure that he met every year with the President

of Mexico. That again is a sign of a special relationship between two friendly countries sharing a 2,000-mile border for so many years.

Of concern to the Republic of Mexico, looking now from the present to the future, are four major issues, and we have talked about them a lot during this conference. First, obviously, the need for help in the international debt crisis. Second, the hope for additional foreign funds from private sources. Third, the effort to obtain larger amounts of multilateral economic aid (remember that the World Bank expenditures for Mexico just in the last four years totalled nearly \$6 billion, and the Interamerican Bank, expenditures of some additional billions). Fourth, access to the United States market.

Now, those are four major issues of concern to the Republic of Mexico involving its relationship with the U.S. Of course, one could always add a fifth, a concern for the respect for its sovereignty and for nonintervention, although here I believe again, the record of the past five decades is clear.

The Republic of Mexico is independent, it is sovereign, it conducts its internal and international affairs as it sees fit, and there is, to my knowledge, no allegation from the Republic of Mexico of any coercion on the part of the United States in these last nearly five decades since normalization, nor has there been coercion from Mexico to the U.S.

So there has been a relationship of sovereign equality, free of coercion, a security community, as has occurred among all of the industrial democracies, one of the great achievements of the post-World War II era among many, many states.

Of concern to the U.S. are the following issues. First, the Mexican cooperation with Cuba, Nicaragua, and the communist guerrilla and armed organizations taking illegal actions against independent states. Second, the large Soviet bloc presence in Mexico, a large part of which is directed against the U.S. in terms of its operations. Third, the growth of drug trafficking operations on Mexican territory. Fourth, illegal immigration from Mexico. Fifth, the concern with the opening of Mexican political and economic institutions for the sake of the stability and prosperity of Mexico.

What has been the general pattern of the relationship over these past years? Of course, my five years in the Reagan Administration did involve a great deal of concern and attention to Mexico. It seemed to me that there was, both under President Lopez Portillo and then under

President de la Madrid, a style of action that encompassed these concerns.

As I perceived it, generally speaking, from the side of the Republic of Mexico, the effort was to say, "Well, let's get on with our economic issues and negotiations, and as to these other concerns, well, that is not our business, that is your business." I would say there was a rather consistent, straightforward Mexican style of saying that these other concerns, that are not connected to bilateral economic benefits for Mexico, are the business of the U.S. and it is up to the U.S. to deal with them.

I would also add that over the years it seemed to me that as the economic crisis became more severe, there seemed to be a very clear cyclical pattern, done I think with great skill on the part of the diplomats of the Republic of Mexico, for which I would compliment them. In this, there would be very intense negotiations, so that Mexico would obtain what it wanted to obtain from the United States — help with the refinancing of the debt, additional loan guarantees, additional market opportunities in the U.S., always dealing with our commercial and economic entities and our very big federal government, and then leading to a promise and a suggestion during the times of those economic negotiations that the differences about issues like Central America, Cuba, Nicaragua, and hostile activities and Mexican support for them, would no longer be part of Mexican foreign policy.

I thought it was an extraordinarily well-done operation from the point of view of Mexico's short-term interest. The pattern was an annual one, in which shortly after the economic negotiations were finished, and Mexico had received most of what it wanted, the foreign ministry of Mexico would resume its operations of a more public and visible kind in support of the communist governments of Nicaragua and the communist guerrilla groups.

It was unfortunate that the U.S. government did not deal more competently with this pattern, but this is the pattern that I observed and that I think can be documented from the facts. I give you this as an interpretation, but it seemed to become more pronounced.

Perhaps the most dramatic example of that, just to make it very concrete for you, is that in December 1985 a very important renegotiation of the Mexican debt was occurring. A large degree of U.S. government cooperation in this process was needed. There were significant

numbers of stories about Mexico no longer being as active on behalf of the position it had taken in Central America, but when the negotiations were done, the Guatemalan presidential inauguration happened in early January, and the Reagan-Mexican summit on January 3, all of that finished. Mexico had got what it wanted. Then, on January 14, the Caraballeda declaration was promulgated by the Republic of Mexico in an effort to isolate, or so it seemed to me as an American official at the time, the democratic governments of El Salvador and Honduras. It was a rather finely tuned political diplomatic operation with a great deal of significant impact, and I saw that happening on an annual basis.

It seems to me that a better relationship between the two countries and an outcome that is in the interest of the people and leadership of Mexico is possible.

Let me briefly summarize some of the concerns that the United States has. Let me address each of those five concerns very briefly and then give you what I think would be a future positive approach to these issues on both sides.

I think the issue of Central America and Mexican activity vis-à-vis Central America is going to be an important in the future as it has been for the past decade, because clearly the historical question of whether the forces of democracy or the forces of communism are going to take power and succeed in Central America is open at this moment. In fact, whereas the tide had been very much toward the democratic direction, I think now the question is still before us. The answer to that question will have a profound impact on the future of the people in Mexico.

To start this brief statement of what Mexico has done, I agree very much with the statement that President Reagan repeated on a number of occasions after May 1984. He said that, if the communists succeeded in expanding from Nicaragua and taking power in El Salvador and Guatemala and Costa Rica, in most of Central America, this would risk 100 million people from Panama to the open border on our South. He meant that Mexico would come under the control of pro-Soviet dictatorships.

I believe, indeed, that if Mexico faced 25 million people under pro-Soviet regimes, as the 3 million people of Nicaragua have been since 1979, and if Nicaragua did everything against Mexico that it has done in aggression against its neighbors, it could well lead to a process resulting ultimately in a pro-Soviet regime in Mexico. There are many

ways in which that might happen, and that is not our topic today, but I think historical opportunities still exist in Mexico for a peaceful evolution of its political and economic system toward greater liberty and prosperity for the people of Mexico. I believe, in fact, that is something about which both countries can do something constructive, but it would be endangered by a communist victory in Mexico.

That is why I believe Mexican policy toward Central America for the last ten years has been so extraordinarily destructive, not only for the people of Central America, but also for the future of Mexico.

Now, what has Mexico done, speaking of this first U.S. concern? I think it is important to recall that Fidel Castro visited the Mexican president in May 1979. Following that, a new foreign minister was appointed, Senor Castaneda. Following that, the Mexican president publicly violated the hallowed Mexican doctrine of nonintervention and called for the violent overthrow of an existing Latin American government, and from that point, May 1979 on, Mexico cooperated fully in the effort of the communist Sandinistas to use political, diplomatic, and military means to take power.

When the Organization of American States, in cooperation with the Carter Administration, negotiated the agreement leading to the Sandinista-led coalition taking power, the Carter Administration belatedly sought an OAS peace force to assure that the promised free democratic elections would be held very soon.

It was Mexico that blocked that activity right from the start. From then on, what one has seen is a rather consistent Mexican policy of public action and other forms of action supporting the communist government of Nicaragua, significant economic help, and significant political support in all international arenas, mainly the United Nations and the OAS.

It is very important to note that in the summer of 1980, the Mexican president visited Cuba, and a detailed timetable was established and agreed upon for a series of actions that took place later. In December 1980, the Salvadoran guerrillas announced their final offensive on Mexican territory.

They launched their final offensive in January 1981. A number of Mexican actions were taken in coordination with Cuba, Nicaragua, and the communist guerrillas of El Salvador.

The Carter Administration condemned Nicaraguan support for the El Salvador communist guerrillas. The final offensive failed. But from that point on, the Mexican government took a number of actions over the years 1981 and 1982. The Mexican peace proposal on the eve of this first Salvadoran democratic election was given in Nicaragua, calling for no elections, but instead, power sharing between the communist guerrillas and the Salvadoran government.

Then, of course, the five Contadora draft treaties, all of which reflected the consistent themes of Mexican foreign policy in Central America, which were: 1) to ignore the democratic commitments of the Sandinista regime; 2) to call for the inclusion of communist guerrilla groups in governments they were fighting against; 3) to seek to prohibit and end all U.S. military assistance to the beleaguered Central American governments; and 4) to create a process of agreement in which there were absolutely no verification provisions that would have any force whatsoever.

That entire diplomacy went on consistently and continued with the Arias Plan and the verification group, which, again with Mexican leadership, was in Duarte's words a verification group that was totally unfair.

The other issues include the question of drug trafficking. Clearly, there has been an expansion of drug trafficking from Mexican territory. It is indeed true that there are two sides to that equation.

One of the things I hope the U.S. government officials will do is to sum up for friendly governments the total effort being made here in health, treatment, and law enforcement to deal with the drug consumption problem. That is clearly the major part of this two-part problem, and the United States has an obligation to do everything it can, as the new president said, to stop, discourage, and help those who are so afflicted.

At the same time, however, there is a problem that comes from producing and transmitting countries, and here much can be done. If *The Washington Post* report of January 7, 1989, is correct concerning the number of new appointments in the Mexican law enforcement apparatus—the allegation being that “key positions are filled by people who have direct links with the underworld”—this is not a positive sign.

Then there is the question of illegal immigration. The Mexican point of view has been that it is a U.S. problem, and obviously, the U.S. has

the sovereign right to maintain control of its territory and to invest the resources needed to do so.

However, we could look at things in a cooperative way: a small amount of cooperative effort on the part of the Mexican public, in terms of prevention of certain kinds of smuggling rings and operations from the Mexican side, some modest effort to prevent the border area from being a free-flow zone, and the like. All of this indeed is possible and would be in the cooperative interests.

What can be done looking at these issues from a U.S. perspective?

It seems to me that, with two new presidents and two new administrations, this is the time for what I would call a Mexican-U.S. accord for cooperation, in which all the major issues would be placed on the table in comprehensive negotiations and comprehensive discussions, so that there would be a compact between the two countries, which included, as Dr. Valenta suggests, not only the political issues, but also economic issues.

Here, I would say from the U.S. side, the U.S. could and might provide increased purchase of Mexican oil for the strategic petroleum reserve and make an effort to persuade its NATO allies to divert their purchases of oil from the terrorist state Libya, roughly \$4 billion a year, to Mexico and other friendly Latin American countries — Mexico, Venezuela, and the like. That kind of leadership is indeed possible. It would help the people of Mexico and hurt the terrorist regime of Libya.

Second, the U.S. could take the leadership to increase multilateral funding, since the U.S. and its allies are such a significant source of this multilateral funding, although here I would say that the emphasis should be on funding to private sector organizations within Mexico, including businesses and cooperatives.

Third, the U.S. could take the lead in refinancing the international debt of Mexico, looking at plans such as that advanced by former Ambassador Curtin Winsor [to Costa Rica], which offers some interesting opportunities, for significant refinancing at reasonable costs to U.S. taxpayers, with the financial institutions in the U.S. retaining accountability for their decisions in the past.

Fourth, the United States could encourage significantly increased private investment in Mexico from the industrial democracies. That is the sort of thing the U.S. might provide. What might Mexico do?

First, it could terminate all political cooperation with Cuba, Nicaragua, and communist guerilla groups against established governments and any activities on Mexican territory that helps that.

I think it is noteworthy that just two days ago, the Salvadoran communist guerilla group made a public announcement on Mexican territory. They have maintained offices and facilities there for many years.

But I think it is worthwhile for our friends in Mexico to reflect on the words spoken, I think with unwise candor, of a Salvadoran-communist guerilla leader: "This is not just a Salvadoran revolution. We have to help all the oppressed and exploited people of Latin America. After we triumph here, we will go on to Guatemala and offer our proletarian brothers the benefit of our experience. Eventually we will fight in Mexico. The Mexican government is not deluding us by its support. We know all about the Mexican Government. We know what that government is." Spoken, I think, with great honesty and commitment by a Salvadoran communist leader. He means it. They mean it.

Second, Mexico would terminate all Soviet bloc activities on Mexican territory that are not consistent with the normal diplomatic status and activities of the foreign diplomats.

Third, Mexico would provide active cooperation in the program against key networks of drug traffickers. The U.S. has an extraordinary amount of information, but it is up to the sovereign Republic of Mexico to decide what it does with such information. With U.S. information and Mexican information and Mexican will, a great deal of progress could be made.

Fourth, the Mexican Government would act to help in reasonable, responsible ways to deal with the problem of internal immigration. Finally, the Mexican government would undertake efforts to open the political and economic system. The key is that both would be done.

The essence of this Mexican-U.S. accord for cooperation is that negotiations and discussions would be explicit, they would be comprehensive, and they would involve performance and implementation timetables on both sides.

And to conclude, the question is — is it possible? These might be nice ideas. Are they politically feasible?

Dr. Ratliff: Jose Luis Barros has taught history of Mexico and Modern Europe at the National University in Mexico City, and he has published frequently on Mexican liberalism and sociological thought and the Mexican revolution.

Jose Luis Barros: I think we all have in mind the integration of the new administration. I would daresay that we Mexicans are hopeful for some changes to happen. We are all hoping to reverse the burden of foreign debt. We are all excited about the new political gains. In our country, we are even talking of change in the long-established relations between church and state. We are all prepared for the sort of hardworking times involved with change.

But I would also like to say that change is expected in both sides of the border.

Moreover, in my view, the mere fact that these times and the change of government that has coincided in Mexico and the U.S. gives us grounds for expecting change, not only in Mexico City, but also here in Washington. That is surely one of the reasons underlying the invitation and the organizing of this conference at The Heritage Foundation. We are facing the possibility of change.

Mr. Valenta's and Mr. Menges's papers on international strategy and on mutual security offer some interesting material to think about on those aspects that should change and those others that should not.

They even provide some ideas on the need to change some of our attitudes toward change itself, so as not to look for it or try to precipitate it. Security might be one of those topics. I am not saying that we should not await or attempt to persuade governments to change on certain matters. I think we should, and first of all, we should change those attitudes that find all too quickly a reaction of distrust in the U.S. hemispheric or global strategy.

The U.S. is, and will be for some time to come, a superpower. Reciprocity would call for a change in attitudes that lean too quickly to see an obsessive resistance in Mexico toward every North American foreign policy move. I have mainly in mind Latin American policy.

We ought to start by accepting by truly and sincerely assuming that Mexico and the United States are nations with different histories, goals, and aspirations. Our cultures are different. The size of our economies is different. Our historical sensitivities, as Mr. Valenta says, and our

perceptions are different. A modern and more mature relationship will only be possible with the acceptance of each other as it is, as it has been, and as it can be.

Security is a topic where we are different. We know in Mexico that the North American security and interest extend considerably beyond its relationship with our country. We will expect reciprocity in the sense that we Mexicans regard security as a topic closely related to sovereignty. Mexico found its security in the observance of international law and international cooperation.

We tend to reject the idea that national security depends on the affirmation of power at the expense of some other nation or nations. Consequently, we think that the firmer is security of all nations, the firmer our security will be. Thus, we have a high regard for actions in favor of peace and in favor of the right to self-determination. We reject bloc and hegemonic policies.

I think we must consider our nation as a whole, its history, its economic potential, its development prospects, its social institutions. Only then can we grasp the goals and means on which a security policy may be based.

In our case, while security is externally based on the will for peace and justice, it rests internally on independent and international development.

The enhancing of mutual security should consider the acceptance of each other's identity and right to exist, the acceptance of each other's capacity to decide and to abide by its own decisions. The enhancing of security calls for international cooperation and for respectful friendship. I, too, think we are facing the opportunity for change, and for once I agree with Mr. Menges. Both the U.S. and Mexico are beginning to experience new administrations within the span of few weeks and we have listened to two presidential inaugurations.

Both heads of state happen to proceed from immediate administrations where they held key offices. I suspect they will both try to make an impression with their personal style of the leadership. In one word, they will move toward change.

Thus far — and I would recall the experience of both electoral campaigns and of their meeting in Houston — both President Bush and President Salinas seem to me to be ahead of us in their disposition for change and innovation. In fact, they seem to me about to challenge our

views. Moreover, if we already seem to agree on some issues of mutual relevance, it would seem we can move forward. I do hope that the political observers and policymakers will manage to come up to such challenge by providing more provocative analysis and proposals on our relationship. Despite difficulties and differences, it is worthwhile to give it a try and to set new high standards for the future.

Dr. Ratliff: We have our last commentator, Jaime Dareblum, who is a lawyer in San Jose, at one time an economist at the International Monetary Fund, now a Professor of Political Science at the University of Costa Rica, and a frequent contributor to newspapers, among them in particular, the *La Nacion* in San Jose and several U.S. papers.

Jaime Dareblum: As I was listening to the excellent presentations of Dr. Valenta and Dr. Menges, I could not help reflecting on the fact that, even after eight years of the Reagan Doctrine and such concoctions as the Contadora Plan, the expanded Contadora, the Arias Plan, and the Escapuldes Agreements, the Bush Administration today faces in some crucial aspects a situation in Central America that is similar to the one that President Reagan encountered in 1981.

Basically, I am referring to the deteriorating conditions in El Salvador, a country that experiences today a rejuvenated offensive of the Marxist guerrillas. El Salvador, I am sure, will become the first item in the Central American agenda of the new administration, because of strategic realities that cannot be avoided or overlooked.

But as it happened eight years ago, the Bush Administration, I hope, will realize — in case the lessons of history have not been learned by now — that El Salvador's problems cannot be solved without tackling first, and solving first, the Sandinista threat. The situation in El Salvador is intimately linked and connected with the Nicaraguan situation, and the same is true for the rest of Central America.

The Commandantes, without the pressures of the armed resistance, find themselves less restrained to export revolution and to nurture subversion of the entire region. The increased inflow of Nicaraguan refugees into the U.S. and to neighboring countries, namely Costa Rica and Honduras, underlines the historical parallel that I am drawing between 1981 and 1989.

At the heart of the Sandinista resilience, the Sandinista consolidation in power, we find Mexico's foreign policy, in the OAS, in Con-

tadora, in world forums. In Western Europe, Mexico was at the helm of enhancing the Sandinista image and maneuvering the agenda of Contadora to avoid the basic issue of democracy in Nicaragua.

A few examples will illustrate this type of Mexican actions. In late 1984, in violation of something that is sacred in the diplomatic and legal tradition in Latin America, which is political asylum, Sandinista police broke into the Costa Rican embassy and took out a young man and declared him a criminal, a common criminal.

Costa Rica took this issue to the OAS Council and the OAS, under the sponsorship of Mexico, under the initiative of Mexico, referred this matter — guess where — to the Contadora. Of course, Ruben Alar eventually was returned and the issue really was not discussed either in the Contadora or the OAS.

Then, in May 1985, the Sandinista arm came to transgress the border, came into the Costa Rican territory. They ambushed a contingent of our civil guard. They killed two policemen. Costa Rica again took the matter to the OAS and the OAS again, under the initiative of Mexico, put the matter in the hands of — guess where — Contadora. Contadora eventually issued a report which declared the innocence of Nicaragua, which really declared that the border line was not clearly defined. The offense is still there. We have not received the condolences yet for the two policemen who were murdered.

I am really amazed at the fascination the Contadoran exercise has exerted on so many members of the U.S. Congress, Western Europeans, and on a certain sector of the U.S. press. I wonder what causes all these people to think that Panama, and by the same token, Mexico, could become the final arbiters, the final judges of Central America's democratic future. But blaming Mexico for the unfortunate developments in Central America is only part of the story. The U.S. has also had an important share in this.

First, it was the Carter Administration's erratic and negligent approach to Central American affairs, particularly the exit of Somoza the democratic future of Nicaragua.

Then, the inconsistencies in policies during the two Reagan terms — and I am not talking only about the differences between the Administration and Congress — I am also talking about the inconsistencies and discrepancies within the administration that have been pointed out by Dr. Menges in his recent book. Central American leaders were

getting mixed signals, one signal from some people in the White House, different signals from certain people in the State Department.

A good friend of mine in journalism wrote some years ago that it is very dangerous to be an ally of the U.S. The U.S. is not a trustworthy ally. Many foreign leaders are finding themselves today in the front pages of *The New York Times* and other media because of their cooperation with the U.S. in certain aspects.

Let me turn now to the future. As you know, there are no clear indications as to where the Bush Administration is going in regard to Central America. This chapter of foreign policy clearly should have priority in the U.S.-Mexican agenda, and as Dr. Valenta and Dr. Menges also said, I do not agree with those who believe that foreign debt and other economic issues should not be linked to security concerns of the United States.

If economic problems tend to stabilize Mexico, Mexico's foreign policy can help, as it has been, to encourage the destabilization of Central America. These actions cannot be disguised under the rhetoric of pseudo-international law.

An initiative that has been making the rounds, at least it has been reported in the press, is one pushed by Mexico to renew bilateral talks between Nicaragua's Sandinista regime and the U.S. This only will help to create the image that the basic conflict in Nicaragua is not an internal struggle for democracy, but a bilateral type of conflict with the U.S. In other words, it will divert international attention from the fact that the real problem in Nicaragua is the lack of democracy.

You are going to have an insurgency in Nicaragua, and you are going to have what you find today. There will be democracy in Nicaragua, and so you cannot solve that simply by security arrangements between the U.S. and Nicaragua, such as the ones implied in the Khrushchev-Kennedy arrangement of 1962. We all know what resulted from that.

Professor Valenta has made a point that has been echoed in the press and in some diplomatic circles, and concerns the *perestroika* linkages to the Central American conflict.

I believe some caution is needed in this regard, because there is a growing perception of a U.S. policy paralysis in the region. Detente is detente, but the opportunities created by a vacuum of U.S. influence and leadership in the region is too tempting for an inveterate adventurer like Fidel Castro, as past experience shows. Finally, I wish to

recall what a famous Mexican philosopher wrote some years ago. Demien Juerges said that grievances are the heart of Mexican politics, particularly in foreign policy.

I believe that Central American grievances for Mexico's partiality in favor of anti-democratic forces in the region should be taken into account in formulating a new relationship between Mexico and the United States. After all, as Dr. Menges explained, Mexico has an important stake in a stable, democratic, and free Central America.



**WORKING GROUP
ON ECONOMIC
GROWTH**

January 27, 1989

Moderator

Norman Bailey, Director and senior economist for KRV International Group, Inc., Washington, D.C.

Panelists

Jose Bernal, Counselor, Economic Section, Mexican Embassy, Washington, D.C.

Alejandro Chafuen, Director of Latin American Affairs at Atlas Economic Research Foundation, McLean, Virginia.

Juan Cintron, President of the Grupo Cintron in the state of Morelos, Mexico.

Ron Dwight, former economic advisor to the U.S. Mission to the Organization of American States.

Xavier Equiha, U.S. House Agriculture Committee staff.

Robert Helander, attorney with Jones, Reavis, and Pogue, New York City.

Edward L. Hudgins, Director, The Heritage Foundation Center for International Economic Growth.

Charles Kovacs, Vice President and Manager of international financing programs for Chase Manhattan Bank, Washington, D.C.

Siegfried Marks, president, Sigmar International, business consultants, Miami, Florida; former Chief Economist and political advisor on Latin America and the Caribbean for Exxon Corporation.

Raul Ortega, Mexican Business Council for International Affairs (CEMAI), Washington, D.C.

Luis Pazos, Chief Executive, Latin American Integration Institute and Research Center for Free Enterprise, Mexico City.

Sergio Sarmiento, Editor-in-Chief, Spanish Language Publications, Encyclopedia Britannica Publishers, Inc., Mexico City.

Working Group on Economic Growth

Norman Bailey: This is a good time to begin the discussion of a new agenda for Mexico, in terms of the economic discussion session yesterday.

Siegfried Marks: I have a suggestion about a possible approach. When we look at how to analyze Mexico's economic growth outlook, and what can or should the U.S. do to assist Mexico in achieving its goals, it seems to me three broad areas would affect this: 1) external factors or global economic factors; 2) the debt problem itself and its future evolution; and 3) internal Mexican government economic policy reforms. We could conceivably conduct our discussion according to these three broad areas, one at a time, rather than jumping around from external factors to internal.

Under the global external factors that would affect Mexico's economic growth outlook would be the outlook for world economic growth, for example. I think it can make quite a difference to how Mexico would get out of its economic problem, whether global economic growth would move ahead at the rate of, say, 4 percent per year, or 6 percent. Even a difference between 2 and 3 percent, over a ten- to fifteen-year period, might make a substantial difference in oil price outlook and other areas.

The second element would be a future world economic recession, particularly in the United States. Mexico and the rest of Latin America have very little cushion to absorb the effects of a global recession or U.S. recession. How would Mexico cope, or what would Mexico's measures have to be to overcome that element?

The outlook for global interest rates would obviously have a very important impact on Mexico's economic growth outlook, the outlook for oil prices, the outlook for other commodity prices. The relationship between the U.S. and Japan in future years might have a spillover effect, positive or negative, on Mexico also — whether that relationship will be one of confrontation and trade wars, or whether it will be one of just a healthy competitive type of situation. In that situation, both

Japan and the U.S. might view Mexico as a good source of raw materials, a good site for investment, a good base for exporting out of.

Mr. Bailey: Taking a contrary point of view, you could make a case that to the extent countries are affected by the international or worldwide economic situation — whether the world is growing at 4 percent, 3 percent, 2 percent, or minus 3 percent — as far as that is concerned, Mexico is probably less affected than most developing countries are.

It is obviously affected by the oil price. We have seen that the oil price does not necessarily follow whether the economic situation in general is growing faster or slower, because in 1986, the world grew at a perfectly acceptable pace, and of course the oil price collapsed, and so on.

So perhaps what is really more important is not so much the rate of economic growth in the world as the prices of specific commodities. For example, Mexico's industrial exports are mostly directed to the U.S. They are very heavily automotive or *maquiladora*. To what extent will those be affected by, let us say, a 1 or 2 or 3 percent lower rate of growth in the U.S.?

Mr. Marks: Not too much.

Mr. Bailey: Not a whole lot.

Mr. Marks: More affected by U.S. internal policies.

Mr. Bailey: Yes, of course. But that is an external factor that is extremely important. Clearly, if the U.S. Congress took away or severely limited the *maquiladora* program, that would affect Mexico very severely.

Ronald Dwight: I would like to comment on immigration. There seems to be a consensus that there is going to be a closing of the border because of the Central American problem. This flow of refugees from Central America is really coming up now, and people that I have spoken to feel there will be a tightening at the border, because the U.S. is not going to take these 20 or 30 million people who are going to decide that they do not want to live in a Sandinista Central America, and Mexico will be caught in this. The purpose will not be to keep Mexicans out, but there will be no way of discriminating.

They are going to close the border. Probably some excuse, like drug trafficking, will be used. But the Mexicans are going to find that they are not going to be able to export their economic problems to the extent that they have been because of the Central American situation.

Dr. Edward Hudgins: My thoughts on this, at least to give part of the Heritage line — what we have said in some of our papers — is that we are going to be facing and are facing, in some regions of our country, labor shortages, and we frankly could use the people.

Mr. Dwight: Well, that is a whole different topic, a highly debatable issue.

Dr. Hudgins: That is debatable. One of the things that I would say about immigration — and maybe we can get some remarks about what Mexico can do — is that in one sense Mexico is losing by allowing its best people to leave, and I am not talking about doctors and lawyers.

I am always struck by the fact that the U.S. was settled by the lowest classes of Europe that came over here looking for opportunity. Sometimes they could not read or write, half of the time they could not speak the language. But what they had was that drive, that entrepreneurship, to come over into a new environment and to work and to make it. We see it with Asians today and other groups.

So actually one of my concerns about Mexico is that they are losing their best people, their best people at the bottom, who, given the opportunity, could work their way up through the system in Mexico, make a stronger Mexico, make a good life for themselves.

Sergio Sarmiento: I think they are the natural entrepreneurs in Mexico, by the way. It has been proved many times. You probably are acquainted with Hernando DeSoto, whose work has concentrated on proof of that.

But I think the major feature of that work is that he was able to understand that there is a class of new entrepreneurs in Latin America who are emerging outside of the system, and who are the true entrepreneurs in our countries because they are not the ones who are protected by the government. They are not the ones who get the government advantages.

I have to agree with Ed Hudgins. We are losing our best people. We are also losing our doctors and lawyers, but we are losing our best people, aside from the fact that we are losing the professionals.

Mr. Dwight: I want to comment on the remark that, whatever we tell the Mexicans to do, they are insulted and do not want to do it. I think that, if you will go over the history of Latin American attitudes toward the U.S. in the earlier part of this decade, the countries all thought that we would come to their aid with some sort of a Marshall Plan. In the corridors, they would be talking about this, and only recently have they realized that it is never going to happen.

We are not going to do that. And now, the economic situation is getting so bad that they are beginning to look at some of the things that we were talking about. I am wondering if there is really anything that we can do but let them stew in the mess that they have made themselves until they begin to come to us and ask for help.

Vis-à-vis the Soviet Union and China, they finally woke up and realized that they were not going to get anywhere with the system that they had. And maybe the Mexicans, maybe the Salinas administration realizes they cannot survive with their present system, and will move in that direction. But I think that, if we go to them with some sort of a program, it would be counterproductive. We have to wait for them to come to us.

Dr. Hudgins: The other thing I will mention is that the Marshall Plan made a lot of assumptions. It assumed that you had a rule of law, that corruption was not the kind of problem that you have in Mexico or similar countries. It assumed a move toward a fairly strong free market system. Even given that the Europeans turned socialist, still you had people like Ludwig Erhard trying to organize the German economy after World War II. And I think there are a lot of things about the Marshall Plan that simply are not understood.

Mr. Dwight: When they say Marshall Plan, they mean money — lots of money, into the hands of the government, so they can get it.

Mr. Sarmiento: What I am going to do is start with what the government is trying to do right now, on the basis of the 1989 budget, and I

am sure that Luis Pazos will jump up at the opportunity to comment on this subject matter.

We have a 1989 budget that is forecasting growth of 1.5 percent for 1989, growth that would eventually rise to about 3 to 5 percent a year in the following years.

What are the assumptions for this growth? The government is estimating that public investment is going to drop by 5.2 percent and that private investment is going to go up by over 7 percent.

For short-term growth in 1989 – in order to get 7.2 percent growth, which is what the government is trying to do in private investment – the economic circumstances would have to change so

dramatically that Mexico would not actually have its present problems. In 1988, private investment grew only 2 percent. So the kind of jump the government is envisioning for 1989 is totally out of range with the most immediate past experience.

Dr. Hudgins: What were the numbers for 1988?

Mr. Sarmiento: 1988 was 2.7 percent.

Mr. Marks: As a percent of GDP, how much?

Mr. Sarmiento: This was the increase over the previous year. These are the figures that were proposed by the government. This is how the budget – the government budget – was structured. It was based on growth figures. They were saying, our public investment is actually going to drop, but our private investment is going to go up. But at the same time we have an increase in the total tax burden levied upon society by the government. I do not have the exact figures, but I think there is a slight increase.

And one of the new taxes that is being levied is actually an assets tax, a 2 percent tax on the assets of a company. This is a very tricky tax. The government is lowering the tax rates for income tax, but at the same time, it is slapping this one on. Why is it doing that?

In 1988, 70 percent of the companies in Mexico claimed they did not have profits. So this is one way to get at companies that claim they did not have profits, but an assets tax is a very unfair tax for many reasons. There are certain industries that operate with a larger percentage of assets than other industries. The government recognized this, for ex-

ample, and exempted its own banks from the tax, so that the banks do not have to pay this 2 percent tax on sixteen assets.

But it did not exempt all of the other industries that have the same kind of problems, for example, real estate. The real estate industry also operates with a very large ratio of assets in comparison to operations.

Dr. Hudgins: Government businesses too? Does Pemex pay a 2 percent tax on all its assets?

Mr. Sarmiento: That is a good question. I did not see it in the law, but if the assets included oil reserves, then Pemex would go bankrupt tomorrow.

Dr. Hudgins: I assume sales are exempt, or are they?

Luis Pazos: No, some of them are not going to pay the tax. I would like to say something about the growth in Mexico.

We have this inflation problem. In 1987, inflation was 159 percent. In 1988, it was 51 percent, with a price freeze. And in 1989, the government tried to reach 80 percent inflation. And this objective is not fixed with growth of 1.5 percent.

If the government wants to reach 80 percent inflation, it must not allow the economy to grow. That means it is difficult to achieve growth and at the same time to fight inflation at that level. That is the problem you have now.

Mr. Marks: Yes, all countries make that mistake. Once they force inflation down, they assume that it is going to stay there.

Mr. Pazos: That is what is happening in Peru and Brazil.

Mr. Marks: Argentina, too.

Mr. Pazos: Exactly. It is very difficult, because the government must create jobs to grow. For that, we think the only way is privatization, to change the expectations of the economy. That is the only way to fight inflation, from the traditional orthodox point of view, and also to avoid a deep recession.

Mr. Bailey: If we are talking about 1989, whatever they would do structurally would have little or no effect on the situation in this year.

You are either going to reawaken inflation, or you are going to have a recession in Mexico. Those are the two possibilities.

Mr. Pazos: Only if they make a very big change.

Jose Bernal: Even in that case, you could have an inflationary impact in the short term.

Mr. Bailey: The effect of this takes place only after people decide seriously that the change is going to be sustained, and then it takes time. So again, I would say that as far as 1989 is concerned, Salinas's analysis, in my opinion, is correct. He either has to reflate, he has to go through a serious recession, or he has to reduce the amount of money going out on debt service. I mean, in the short run, he is faced with those three alternatives.

Mr. Marks: There is another problem, the balance of payments situation. Imports increased by about 50 percent in dollars last year, versus the year before. Now, that — together with some other factors — produced about a \$6 billion deterioration of the balance of payments. The next balance of payments deficit, I think, was around \$3 billion.

That means, it seems to me, that Mexico cannot continue in that direction, either, for very much longer. They will have to do something in order to get out of this huge balance of payments deficit produced by this big increase in imports. So that would have an inflationary effect too, if they do not start to permit the same treatment.

Mr. Bailey: You either continue to devalue the peso, in which case the imports will get more and more expensive in dollar terms. Or you do not, in which case you do not keep up with inflation, and your exports get less competitive. So either way, your balance on current account deteriorates.

Mr. Pazos: They have the plan this year to let the deficit equal the balance of payments, because they think it is more important and easier to control the dollar price, and in the prospectus of this year, they show they are going to have a deficit in commercial imports and exports. That means they do not have a plan to have a big devaluation this year, because a big devaluation helps to balance.

Mr. Bailey: They are showing a commercial trade deficit for 1989?

Mr. Pazos: Yes, they show that in their figures.

Mr. Sarmiento: It is not quite clear yet. Just as the computer system collapsed during elections, the computer system for trade figures collapsed in October, just at the right time. But the fact is, apparently Mexico will have a trade surplus, or did have a surplus, for the entire year of 1988. But it is quite clear that there was a deficit in November and December; it turned into a deficit all of a sudden.

Mr. Pazos: The projected figure for 1989 is a deficit for the whole year.

Mr. Marks: How are they going to finance this?

Mr. Pazos: In 1989, they are going to allow a deficit in the government.

Mr. Sarmiento: They are estimating \$193 million only. But they are estimating a deficit for the first time since 1982.

I wanted to comment on something that Mr. Bailey said. I agree with you in that the short-term policy options for Salinas, following the path of least resistance that we talked about yesterday, would lead him to do what he is doing. I think it makes sense under the conditions that he is working under. But I think the short-term medicine actually goes against the proposal to modernize the economy, to change the economy.

The fact is, something has happened in Mexico over the past couple of years, and I think I am seeing the reversal of a trend toward a coherent financial policy that I saw before. We are talking about balance of payments.

The last time before 1982 that we had a balance of payments surplus was in 1950, which was \$163 million. And then we had deficits all the way to 1982. In fact, 1981 was the worst; we had a deficit of \$12 billion.

Then, from 1983 to 1987, in those five years, we had four years of surpluses. Of course, the peso was undervalued, and this created pressure on the inflationary front.

I know that, but for the first time, the debt began to be reduced. There was a serious attempt to solve some of the basic problems of the economy.

And then, beginning in 1988, the situation changed. In 1988, you said there was a shift of \$6 billion. Yes, indeed, in 1987 we had a surplus, a

balance of payments surplus of \$3.8 billion, which changed into a \$3.1 billion deficit in 1988, and in 1989 they are estimating close to a \$5 billion deficit.

That is as bad as 1982, so we are going backwards.

One of the points that I was trying to make yesterday is that I do think, as against the opinion of my friend Luis Pazos at certain points, that the de la Madrid administration made some basic corrections in financial policy for a number of years.

But I think that caution is being abandoned, and I think the short-term solution proposed by Salinas – which is to borrow more money, \$7 billion, and with this \$7 billion to finance a deficit of \$5 billion in the current economy, and to use \$2 billion more to support the peso and maintain the peso at the level they think it should be – I think it is silly. It is just adding to the debt problem, or perhaps it is assuming the kind of strategy that says, “I’m not going to pay any more attention to the debt problem. I’m going to get money. You don’t want to give me money, I won’t pay you what I owe you.”

I think the Salinas administration might take this very hard-line position eventually, especially after what happened politically in 1988. So I do see a deterioration of the problem. I think they can pull it out for two or three years. But I have begun to think of writing a book called “The Crisis of ’96.”

Mr. Bernal: The thing we have to consider is that there is another goal. The main goal now is to consolidate the control of inflation. In the past, the goals were different in terms of refusing to deal with the balance of payments. But now there could be a substantial advance in control of inflation.

The main goal that President Salinas has established is to consolidate the balances and control inflation. You can do that only by letting other economic variables worsen perhaps in the short term, but the main goal in the medium and longer term is first to reduce inflation.

You have a different situation in the country, where the expectations for economic growth are different than in the past. And this comes accompanied by a proposal to go back to a period of sustained economic growth by means of reducing the transfers abroad.

I think that we have to consider the new package as a whole with different variables. It is a set of different instruments. This implies or

means that some of them will go back for the purpose of attaining the main goals established by the program.

Mr. Sarmiento: But the question is, are we really controlling inflation, or are we making it seem that we are controlling inflation by lowering the inflation rate? That would be my main question to Mr. Bernal.

Mr. Pazos: I think the main object is to control inflation, and the officials in Mexico point this out when they have less trade. They must devalue, and they have more inflation. When they have more foreign credit, they can delay the devaluation and they can control the inflation for a time. They think they can manipulate the price of the dollar through more credit, and in this way they can stop inflation.

For that, they need more foreign debt. They need more dollars, because in 1983, 1984, 1985, they did not get more dollars. For that, they had to devalue. At the same time, inflation went up and they had to correct the exchange rates.

Now, they can freeze the exchange rate if they have a large reserve, and they have credit. For that, they ask for more credit. And in 1988, they thought they already had the credit. In Mexico, the bankers think that new credit is all ready Mexico.

Mr. Bailey: That strategy only works if your exports increase at a more rapid rate than your imports.

Charles Kovacs: I wonder to what extent both past and future growth will be affected by the capital flight issue, because in some of these years, you see billions of dollars going out. You can track the numbers. And when you have an overvalued foreign exchange, then of course it is not even capital flight -- it is just common business sense that you move your money from one country to the other.

It is almost a subsidy for that. You know, I think this is one of those variables that does not get much discussion, the whole issue of capital flight, and the question of attracting Mexican money back into the country.

In that context, the 7 percent growth in investment, you know, it is a lot of money. It is a big difference from 2 percent. But given that \$30 billion, \$40 billion, \$50 billion of just Mexican capital abroad, not to

mention what you get from foreign capital – if there was an investment regime that welcomed it – we are talking quite about a few billion dollars, are we not?

Mr. Sarmiento: I think again the peso question is relevant here, because by keeping the peso overvalued, or not at its market value, the government has been compelled to raise interest rates to extraordinary levels.

They are estimating right now that the level of interest rates in 1989 is going to be 36 percent nominally with an 18 percent inflation rate. That means 18 percent yearly in real terms of interest rates. That is absurd. How can you get the kind of private investment – the private investment envisioned in the budget – if you have such levels of interest rates?

It does not make sense. Of course, they are doing that to keep money within the country. It will not work to keep money within the country, because if you are afraid of a devaluation, that 18 percent is not enough of a premium. But it is enough to make you not want to invest productively.

Mr. Kovacs: But where is that money coming from? Because, you know, one story that I heard is the people who put up the money for the 36 percent, 40 percent type instruments, are actually a small group of people who know perfectly well that there is going to be devaluation on that, or they should know.

Mr. Pazos: As you say, there is both an inflow and a flight of capital.

Mr. Kovacs: But that is a discrete choice. It is up to the government to decide how it wants to run things. But this idea of attracting money through special treatment for a particular group of people –

Mr. Pazos: It is important to the government.

Mr. Kovacs: It may be important, but the alternative is to get that group of people to invest in their country.

Mr. Pazos: Because they have to make a change, because now this is speculation about how people act in Mexico. That is a problem. Because now, if I am going to take my money to Mexico, and to be there

for three, four, six months — if I see this thing is okay, I will stay for two months more. If not, I will come back.

Mr. Sarmiento: We are speculating. You see that the government has made a political commitment to maintaining the peso. You see you can get, right now, 40 percent on peso investments, or 50 percent.

Mr. Bernal: But the main purpose again is to change the expectations, because we are living in a very strange economy, and we have to change that situation, even if we do that at the cost of sacrificing the balance of payments. We need a surplus.

Alejandro Chafuen: It seems that everyone here agrees that the situation for 1989 and perhaps 1990 is going to be very hard. I do not know if that is the main purpose of this meeting — to say what is going to happen in 1989. But at least for my organization, we are very concerned with the future of Mexico and Latin America and the U.S.

It is not a short-term problem. It seems to me that we cannot forget the importance of the political front and the educational front. Up to now, everyone is thinking that the solution comes within the current regime in Mexico, the PRI.

There are also, it seems, a lot of free market people who have the assumption that the government can do nothing. But that is a false assumption. The government will do something. How can we minimize the damage the State Department or international boards will try to inflict? We have to come up with some solutions.

So my question for Luis Pazos is, do you not think that for the future of Mexico the real debate and the real focus of our work should be with the Cardenas faction and the PAN, rather than with the PRI? It seems that in these opposition parties we have the main battle going.

And the other question is regarding the economy. We all know that Mexico is full of resources, material and educational. You have a huge state sector, and it is very hard to privatize. In Argentina, as you know, nothing was privatized, but simply it is much easier to do and much faster and does not cost a cent.

And it has a lot of growth potential. I call it the eraser theory of development, just deregulate. You only need to allow people to start producing and start investing in certain areas, so just scratch certain laws that ban private investment in many areas.

That not only is very cheap, but can have close to immediate psychological impact, so that the two questions are, do you not think that we have to work mainly on the educational front, and perhaps the U.S. can do a lot to support people such as yourself and the universities where they are preaching the right ideas? And second, is there room for deregulation in the Mexican economy?

Mr. Pazos: First, I think not only do we have to address the opposition parties. We also have to address the people that want change inside the PRI. There are people who look for change, so there are divisions.

There are officials who want to change and want privatization because they see that there are big needs. They are afraid to make this change. For that I think that people like Sergio, like me, like others who work in the newspapers, must encourage this change. I think it is an ideological fight in Mexico.

Mr. Bailey: It seems to me that, although these matters we are discussing are important, they are to some extent peripheral to the most important issue, the most important issue being the increase in the rate of savings and utilizing those savings in a productive fashion.

When Charles Kovacs asked where is the money coming from, I am sure that he was not talking about money printed by the Banco de Mexico. He was talking about real money that could be used for investment purposes, productive investment, and so on.

I mean, for instance, whether Pemex is or is not privatized in my opinion is a peripheral issue. I mean, Peneveza in Venezuela is a public company. It is very well run and extremely profitable. Now, if Pemex were run the way Peneveza is run, it would be a tremendous plus element in the Mexican economy. On the other hand, Texaco went bankrupt, and it is a private company, run into the ground by its private management.

I am in favor of privatization, all other things being equal. Since in the world, unfortunately, all other things are not equal, I do not know whether I am in favor of it or not, to tell you the truth. I am in favor of it in certain cases, and not in other cases, for it is always disruptive to change any entrenched situation to another situation. I disagree completely that deregulation is costless. Deregulation is not costless. It has costs. Now, the benefits may be a little greater than the costs. I mean, that is probably in most cases true. But to simply say that you are going

to be able to do it, that it is something you can do right away that would not be disruptive and has no costs, is not correct. I mean, disruption itself is a cost. It is an economic cost, because one of the most important things for economic growth and development is stability.

One of the major reasons why Mexico grew very well in a very restrictive atmosphere over decades was that people at least knew what they could do and what they could not do, and they knew that next year was going to be like this year, and the year after next was going to be like next year, and so on and so forth.

This also explains why Indians and Chinese, when they are outside India and China, are extremely productive, although they may be kept in a kind of ghetto, or why the Jews in Europe for centuries were extremely productive economically, despite the fact that they were prevented from doing all kinds of things. But at least they knew what they could do.

So it does seem to me that what we really need to discuss, if we are going to be productive here, is what can Mexico do to increase the rate of savings. I am talking about real savings, not monetary savings, and how can it ensure that the majority of these savings are productively used?

Mr. Pazos: Stability is very close to security. People want to be secure about what is going to happen to their savings, and when the banks are nationalized, it is not secure. So for that, I think stability in Mexico depends a lot on privatization to change the expectations. We cannot get enough saving without first doing a lot of privatization.

Dr. Hudgins: But is there not a prerequisite to that? Privatization is assuming the protection of property rights, and it is assuming a lot of other things.

Mr. Pazos: It is not for itself. If they privatize the banks, it is not because they want to get more savings. It is because they are going to change the expectations of people, and the savings of Mexicans are to come back to Mexico and make an inversion. Because they think that things are changing in Mexico. For that, the government must do something big to improve the expectations of the people, to improve security.

Mr. Sarmiento: I do not think that we are going to see significantly more privatization, so that is a moot point. We will not see the privatization of Pemex, and we will not see the privatization of Telefono de Mexico.

Now, there was a little item added to the 1989 budget that pretty much prevents the President now from privatizing any parastatals without Congress's approval. He will not get Congress's approval, because he cannot get even his own PRI majority to vote for him on that one.

So that is a moot point, and I think Mr. Bailey is right. We have to go back and see, does this mean that Mexico will not generate any savings, will not be able to generate the 7 percent growth in private investment that it requires for 1989 and the following years?

I am not sure that privatization — though we might agree with it — is the only factor involved here. I think there are certain other things that can be done in the economy and in the financial operation of the country that may generate that kind of attitude. Mr. Bailey was mentioning that Mexico sustained a period of economic growth between 1940, the end of the Cardenas administration, and 1970.

That was pretty sound. I am not saying it was totally sound. You know, we will never agree with the government on ideological terms. But it made sense, and there was growth, and the country was functioning. Now the country is not functioning, or has stopped functioning since 1982 on the terms that it was functioning before. Now I think there are ways of getting to that kind of growth again with sensible financial policies, regardless of the structural changes that I think we have to support in the country for the future.

Dr. Hudgins: They privatized, supposedly, a lot of companies, but in terms of what it really amounts to, in terms of the public sector, it has been fairly small, from the numbers I have seen.

Mr. Kovacs: The impact is small.

Mr. Marks: We should look at the budget policy of the government, for example, and see whether the budget policy is really conducive to stimulating more efficient use of savings, or whether the government is

going to absorb an ever larger proportion of national savings merely to end the budget deficit.

Dr. Hudgins: I think that is a very important factor. That is one of the reasons, by the way – and I think Luis Pazos pointed this out in some of his writings – that, during the period that Mexico was under the IMF Adjustment Plan, after 1982, they were still adding people to the government payroll. They were still doing all these terrible things, which again I think says something about IMF.

Mr. Kovacs: The need to create more savings, is the *sine qua non* of any kind of growth or anything else. For that you need confidence, business confidence and investor confidence, not only in terms of large companies, but of the average person, going down to the middle class. The key there is a government decision to say, “Look, our first priority is restoring domestic confidence.”

Now, if they define “domestic confidence” in terms of populist measures to make sure that nobody ever gets fired from a government job, whether he is working or not, then there is going to be a problem. But you know, I am confident that the government has quite enough talent and know how to realize just what confidence and investment confidence mean, and then to target its policies, to cover a whole range of issues, some of them economic, some of them political, some of them even constitutional.

If they were to introduce a repeal of some of those provisions, which were enacted in the last administration, which was supposed to be more liberal, but which in fact fenced off certain sectors of the economy – if they were to repeal some of those, it would be a terrific diversion, of course, but it would also be a very interesting signal to the rest of the world that yes, they do want to change things, and this is the intent.

And, you know, once your mentality is that you want to do a certain thing, and you telegraph your intentions, and you follow through on it fairly consistently, confidence can be expected to grow. But that kind of directional strategy is not clear yet. There are some good signs, of course, but it has to be more consistent, and it has to continue.

Mr. Xavier Equiha: I think a better step, before Salinas considers privatizing what they call the strategic sectors, would be to liberalize them. A good example of this is Mexico’s petrochemical industry. Right

now, it is divided into two, basic and secondary products. The basic products are the ones that U.S. companies would like to invest in. Mexico cannot produce those basic products. They do, but sometimes they have to import them.

And then they have the law that prohibits petrochemical foreign investors. It is limited to 40 percent. That is another thing that has to change. And all of the foreign investment laws have changed, except for this petrochemical one. The Mexican Petrochemical Commission and SECOFI (Secretariat of Commerce and Industrial Development) do not want to liberalize that industry. It is a very important industry and I think Salinas, instead of privatizing the strategic sector, should liberalize. The same with the airline industry.

Dr. Hudgins: I do not know if I showed Alejandro Chafuen the piece, but I was in Argentina recently, and we were talking about debt-equity swaps, and I made the big privatization pitch.

But this assumes a deregulated environment. It assumes a lot of other things, and if you do not have deregulation, then a private company will do just as poorly as a public company. It will just be a matter of who loses, which in fact is why many companies, as you know, were nationalized to begin with. They were on the verge of bankruptcy, and rather than the government letting them go under, they nationalized. They picked up the debt and kept people on the payroll. And that is how a lot of this accumulation of companies went along.

Robert Helander: I am concerned that all of the technical discussion of choices by the government as to whether or not the way to instill confidence is to support an artificially stable exchange rate, for example, or whether little signals given out to the economically sophisticated are really sufficient.

At some point or other, you have to have, if not an ideological, at least a political, rationale for the relationship between the governors and the governed. In country after country in Latin America, we see traditionally, for reasons that everyone around this table could recite perhaps more elegantly than I, a vision of the role of the state, the *estado tutor*, as opposed to the *estado servidor*, a philosophical mutation of the Roman state. And it works, more or less, when you have a large percentage of the population engaged in agriculture, and it totally fails when you have urbanization growth rates that are twice your popula-

tion growth rates as a whole. And we have had those for 25, 30 years, not specific to Mexico alone, but in almost every country in the hemisphere.

That causes dislocations, and it also causes enormous temptations toward populist policies. When the history of our times is written definitively, I suppose my nominee for the biggest villain would be the Argentine economist Raul Prebisch.

Mr. Chafuen: I could not agree more with some of your remarks. Going back to macroeconomics, Sergio Sarmiento mentioned a period of growth in Mexico from 1940 to 1970. I can pinpoint the same rates of growth in many Latin American countries.

There are also macroeconomic myths. Today's problems in many Latin American countries were rooted in the policies that were started in the 1940s. It was a growth based on import substitution.

And going back again to investment and savings, recently we have had a big brawl with this famous test of economic literacy in the U.S. That is a policy for growth, and the correct answer for some of the people who did the test was "increase investments and savings."

But that is not the truth. You can have investment and savings in communist countries. In Argentina, the government imposed forced savings to increase investment — forced savings so each company has to pay a huge tax.

Now, if you want to invest in the correct areas, and if you want to encourage people to save, again, you have to work with the financial sector, and there are only two alternatives in Mexico — deregulate or privatize. What is the third alternative?

Regarding the cost of deregulation, as you well know, in Latin America, Mexico or Argentina or Brazil or Uruguay, there are areas that are closed to private investment. The only chance of doing something in certain states is being a bureaucrat. So it bans productive activity. Fifty percent of the most productive areas in our countries are closed to private investment.

Costs are negligible. Every action has a cost. But costs are negligible in some of these liberalizations. Suppose, what would be the cost, Luis, of saying, from now on, we are going to allow new private banks in Mexico? Some people would see their profits lowered and their power

lowered. But the benefits, you know, of such a policy would be much higher than the costs.

Juan Cintron: I would like to hitchhike on the comments of the gentleman from ACCION because I think that we are missing the point if we do not pay attention to what he is saying.

It seems we are trying economically to resolve a problem in Mexico that first needs another kind of solution, and that is a reorientation of the goals of the country.

If we do not learn that in 1917, there was a revolution that succeeded in putting together a big coalition of leadership that based its future on taking the government toward a stronger tutorial role. We must understand that, as he has pointed out so well, and that Mexico in 1917 was basically a rural economy with a bit of mining — or a lot of mining, depending on your perspective — and we must understand that the government's policies over that 70-odd year period have been very pervasive in convincing the majority of the population, including the private productive sector, that the only way to get ahead was to go along and be in bed with the government. And this has created a feeling and an understanding and a knowledge and a philosophy — any of the words that we feel comfortable with — on the part of everyone in the economy that only through government action and government participation and government association are we going to get ahead.

Maybe it has changed a bit, because there has been quite a bit of political action going on since about 1982. But certainly through 1982, 1983, we wound up with a country of 80 million inhabitants and about one or two citizens. And there is a big difference between a citizen and an inhabitant.

So we have to create an environment in which everyone wants to become first of all a citizen in favor of his country. If people take out \$50 billion from your country, that certainly has a lot to do with a lack of security and lack of stability, but also it has a lot to do with lack of belief in your country. You can change everything you want to change about what the government is doing or not doing, and you can privatize everything, but if, at the end of the rainbow, people do not believe in their country, even if their money comes back, it is not going to come back with the right intention. You will wind up again with fifty sugar mills that will go bankrupt, and with the expectation, as was the case in

that particular instance, that the government will take it over and solve the problems.

Mr. Bailey: I wasted a good part of my life studying development theory, and my conclusion from all of that was: Give me a development model and I will give you several important exceptions that destroy the validity of the model.

The conclusion was that the only elements that are really essential for economic development are economic policy and stability, not political stability. Korea following World War II, for example, had a number of coups and a major national war, too little or no inflation — although that can have its ups and downs — and over a long period of time, lower or no inflation. A high savings rate or access to outside savings, because it has been done both ways. And sufficient economic liberty to make sure that the bulk of that savings goes into productive use. Without being apodictic about it, it does not have to be 100 percent; it is not going to be 100 percent.

And I always find it useful to put myself in somebody else's place. So, what would I do if I were President Salinas of Mexico, and my goal, which I assume is his goal, is to bring Mexico back to a path of sustainable noninflationary economic growth. I have to assume that is his goal.

What would I do if that were my goal? Well, first, I would have to establish my authority because if I do not do that, the rest is hopeless. And I might as well go home or resign or steal a lot of money and move to Paris, or whatever. Then I would, among other things, decapitate the great barons who can oppose me. It does seem to me that Mr. Salinas is in the process of doing that, and so far he has been successful.

Second, he then should demonstrate that he is going to reestablish the authority of the PRI in the Mexican political system. Now is not the time — I am not talking for me, now, I am talking for Mr. Salinas — now is not the time to have all kinds of political ferment going on, and all kinds of strange things happening, because it is going to make it all that much more difficult to reestablish economic growth.

Third, I would take the attitude that if I die in the short term, the medium and long term do not matter. So even though I do have a plan for the medium and long term, I have to do certain things in the short term that are not going to turn the people of Mexico so much against

me that I am not going to be able to accomplish anything in the medium and long term.

And I get back to the question that I have three alternatives for 1989, which is the year I have to worry about right now, which is reflating, going into a very deep recession that probably could be called a depression in a country that has already been in a depression for several years — or increase the resources, the financial resources that are available to me so I can avoid the Scylla of recession and the Charybdis of reflation. And the way to do that is to get people to give me more money on some basis or other.

Now, is foreign investment going to increase enormously immediately in 1989? Of course not. Are people going to lend me more money? Hopefully, but probably not a whole lot. And as somebody pointed out here, that increases the tax burden. And the other alternative, of course, is to decrease the outgo.

So it would not surprise me in the slightest if President Salinas in the next couple of months announces a major program or project to decrease the outgo — meaning exactly what we are talking about, namely a reduction in the debt service on one basis or another.

Then, if I can achieve all of that, if I can get through 1989 with a fairly modest rate of economic growth, having avoided depression on the one hand and reflation on the other hand, I can move into the next phase, which is reestablishing all of these elements that I have just mentioned, which used to exist in Mexico. I point out that between 1940 and 1970 all of the elements that I have mentioned existed in Mexico, and Mexico grew rather nicely.

To get back to that kind of situation, and then we can talk about all of the other things that we have been talking about. It seems to me that, since he has no choice on the other things, and since he is clearly already moving on those other things, there is not much point in our talking about them, because that is his policy, and we are not going to change it. What we should be talking about is how does he get back to a high rate of savings which is used productively in the second phase?

Mr. Marks: I would like to pick up on your idea that we have seen in Mexico, and also in the rest of Latin America, one very unfortunate, very rapid, very basic, very structural shift from basically rural societies that had been exporting, where the need for capital investment was

rather modest, to rapid urbanization, industrial societies, where the demands for public services, for improved standard of living, and so on create a totally different ball game.

If we look at it from that point of view, we have to realize the crucial importance of two basic objectives for a Mexican government or any government in Latin America. And that is to raise the level of investment much higher than a rural society would require, and also to raise the level and dynamism of exports to earn foreign exchange, because urban societies, if they are going to increase standards of living, have a much higher demand for imports—sophisticated imports, a wide range of imports.

So it seems to me that if we want to see Mexico develop adequately in a stable environment in the future, we should examine the Mexican government's policies from the point of view of whether they stimulate growth or savings and investment and whether they stimulate growth in export earnings.

And that is where I tend to disagree with your conclusion. I feel that the Mexican governments—the previous one and this one—just have not done enough in this area. In fact, they have taken policy measures that are quite the contrary, that have the opposite effect. Putting new taxes on business, rather than lowering the domestic internal debt, is going exactly in the wrong direction. Permitting the exchange rate to become overvalued creates an obstacle for export diversification. That is going the wrong way in what is required to meet the long-term needs of a rapidly urbanizing society.

So Mexico is going the wrong way. We need to think in terms of policies that would reverse this planning. This government is going the wrong direction still.

Dr. Hudgins: In terms of the wrong way, would you say the tax on assets is one?

Mr. Marks: Yes. They should concentrate on slowing down the growth of the internal debt. A central policy should be measures to slow down the growth of the internal debt, to try to have more savings available to the private sector instead of absorbing a greater share in the public sector.

Mr. Helander: Can I just add an anecdotal footnote on that? I think Mexico is in danger of falling into the Argentine trap, where you have very rich people who own nearly bankrupt companies that are not allowed to go under. And who would ever lend any money to the balance sheets of most Argentine companies? Clearly only the owners, running it back to back through an offshore bank. Mexico has not had that until recently. And Mexico is in danger of what I would call the Argentine disease.

Mr. Pazos: I agree both with Norm Bailey and with President Salinas. I think it is logical, but for example, in 1989, Salinas chooses to get resources from outside, and he has enough of a problem. He resolves the problem for 1989. But after that – what?

The problem in Mexico – also Argentina and Brazil – is that many economists tried to resolve the problem only to get more money for savings and investments, and I think that reprivatization of the economy is not only an ideological point, it is a necessity for domestic confidence and for growth without inflation. It is not because we are right wingers or because we are dogmatic, because the only country that would solve the problems – one of the only countries – is Britain. And Britain has reprivatization.

Another thing I want to point out is that Mexico grew from 1940 to 1970 with another kind of government. The beginning of our problems was when government grew a lot, and we can say, it is okay, Mexico, we can grow again. But things are changed. In 1970, the government was small in comparison with the government we have now. Okay, we had a public enterprise, we had intervention, but not as much as we have now.

I think if we try to resolve our problems without big democratization and liberation, we are not going to solve our problems even for one year. We are going to get reserves but from the outside only. And your people know there is no domestic confidence, there is speculation only. But if we do not make these changes, we are not going to solve our problems even for one year, for six months, seven months.

Mr. Bernal: My comment has to do with how to increase the level of national savings, how to reduce the deficit, and how to restore the economic equilibrium in the long term.

Contrary to the opinion that foreign debt is not the main problem at this moment in Mexico, it is. As Norm Bailey has said, it is only by reducing the transfer of payments abroad that not only can the Mexican government but the Mexican economy recover economic growth in the short term.

There is a very close relationship between foreign debt, foreign payments, and the payments on the domestic debt. Why? Because if we go back to the figures for the 1989 budget, more than 60 percent of the federal budget is programmed to pay interest on the foreign debt, and then the domestic debt. If the Mexican government, for example, reduces the payments abroad, it can reduce the payments 30 percent to 40 percent. That will help to reduce the deficit. That is, reducing the demand for funds from the banking system, and this could result in freeing these funds for investment, and at the same time lowering interest rates, reducing inflation, and promoting economic growth.

I think this is a very logical path that may be followed, and it would at the same time make room for some sort of public investment in infrastructure, in promoting government programs, while reducing inflation and creating new expectations for the overall economic growth of Mexico.

Mr. Sarmiento: This point has been made clear by other commentators. We have been talking almost as if the short-term measures that have to be applied in the Mexican economy right now necessarily have to be in opposition to the long-term measures, and I think that we should make it very clear that there are some clear options in the short term, and there are some clear options in the long term.

Siegfried Marks mentioned the fact that there are a number of measures that are being taken right now that are going to produce exactly the opposite results of what appears to be the short-term objective of the present administration, and I think those short-term problems have to be addressed.

You cannot increase your tax burden and expect private investment to increase by 7 percent. You cannot overvalue your currency at a time when you are liberalizing the economy, and so on and so forth. Now, the fact that we can concentrate on these short-term problems does not mean that the long-term problems disappear.

It is peculiar that the only businessman here in this room, Mr. Cintron, also spoke about the fact that we have to change some very basic ways in which the government operates in Mexico. That means that, as a businessman, he is also thinking of the long term, but I am sure that does not prevent him from making short-term investments. He has industries to run, so he has to make sure that those industries are operating.

There are problems that are being committed under the short term that are going to affect him, and he will fight, I am sure, for the long-term changes. But there are some short-term measures that have to be changed, too.

Raul Ortega: I think we are missing here a classical example of what is actually happening in Mexico.

On the one hand, for the government in this case, as Luis Pazos has correctly said, there have been many changes, and those changes in their view should be enough to regain confidence.

On the other hand, I think there are some very good arguments, to say that those measures are not enough, and therefore there are some negative attitudes or, I would say, a high level of skepticism toward the measures taken in the Salinas administration.

I am afraid that the business community as its participation is being asked to increase the rate of investment by 7 percent this year, to solve the short-term problems that we have. Of course, the first thing business has to do is accept the explanation the government has provided and make the private sector understand. I think the other arguments posed by the new administration are clear. They seem to me very rational. On the other hand, they are not enough, and that is clear. And therefore, even though the private sector agrees on those arguments made by the government, I think they actually do not translate into real investments.

The private sector can agree with its mouth that we are in agreement and we are going to support you. But, speaking very candidly, they do not put their money where their mouth is.

I think that shows the kind of trap in which we are at this point in time, and it is very important in speaking about how we view this agreement in principle. I think it is very important for both of us to have a really constructive dialogue and not to take unilateral positions that

can affect us. I refer specifically to this new tax on assets, which has had a very damaging effect on the business community. I would say that in December of 1987, the business community was very skeptical of the tax, as you know.

One year later, we have had to accept that it has worked.

We are not sure inflation has been controlled, but at least it has been reduced, and that is a fact. We are hopeful that that can be the case through the new pact.

And these hopes that we were building up have been shaken in one decision, which is the kind of measure that should not be taken, because the private sector has been having a lot of contact with the economic cabinet of the new and the last administration. And it is a bad feeling to realize that the night after you talked to the government, they might suddenly announce a new measure that is going contrary to what you had agreed to the night before in a meeting. That is the kind of thing we have to avoid.

Mr. Cintron: First of all, a definition that we must make is what do we mean by short term and by long term? The U.S. or, if you will allow a cultural phrase, the Anglo-Saxon definition of short term and long term might be different than the Latin American definition, or Japanese, for that matter.

I thought that in 1976, when I lived through the first devaluation in 22 years in Mexico, that long term and short term for me became the next day, in terms of survival. Subsequent to that, and after going through the ups and downs of the late 1970s and then 1982, I have come around to the conclusion that in Mexico, the short term is around the end of the century, and the long term is the year 2010 or 2015.

Because I sincerely believe — and I think I tried to say this yesterday — that the current generation of the business sector and of the government, namely us, really is the enemy. In other words, we cannot potentially change enough to make a substantial difference in the fortunes of Mexico for the long term. We may make fine adjustments in our way of thinking and our way of acting, but the only ones who can make substantial changes are the next generation who are in the process of being educated today.

We have educated, over the last twenty-five to fifty years, a couple of generations that became very comfortable and accustomed to a way

of doing business that was valid for that point in time and history, which, because of the technological and communications revolution and financial mutation of the end of the 20th century and the beginning of the 21st century, is no longer valid.

And we cannot adjust to that, simply for human reasons. Now what we must be intelligent enough to do is a) understand and recognize that, b) make those short-term adjustments that would allow the long term to eventually come into play. If we do not, then, as a professor of mine said once, in the long term, we are all dead.



**WORKING GROUP
ON POLITICAL
DEVELOPMENT**

January 27, 1989

Moderator

William A. Perry, President of the Institute for the Study of the Americas, Washington, D.C..

Panelists

David Asman, editor of the Americas column, *The Wall Street Journal*.

Leonardo Ffrench, Minister of Press and Public Affairs, Mexican Embassy, Washington, D.C.

Jeffrey Gayner, Counselor for International Affairs, The Heritage Foundation.

Daniel James, President, Mexico-U.S. Institute, Washington, D.C.

Javier Livas, businessman, Monterrey, Mexico.

Sol Sanders, freelance writer, journalist specializing in Latin American affairs.

Carlos Sirvent, deputy director, Institutional Revolutionary Party (PRI) School of Political Training, Mexico City.

Ricardo Villa-Escalera, industrialist, Puebla, Mexico.

Vilja Woodcock de Villa, economist, Puebla, Mexico.

Working Group on Political Development

William Perry: I would just like to start off with a few observations of my own. The government of Mexico was essentially completely run by the PRI. All real battles over policy took place within the party, and then were implemented by the Government. For all practical purposes opposition was symbolic, often restricted to protest, if not merely decorative. That was the political system that Mexico had forged in the wake of the Revolution, which existed without much change until five or ten years ago.

Now, certainly the government party controls power and controls the government, and I guess can do pretty much as it chooses. But it is now, I think, constrained in different ways, in ways it never was before. In sort of a passive and an active sense, it now has to consider what effect opposition by opposition parties would have on prospects for implementation of its policy. It also has to take into account what effects its policy would have on prospects for the growth of the opposition, which is also a constraint of some sort.

I think the question we have to address today is how the system is working, how this new situation is working, and how it will evolve in the future.

Are we going to see further movement toward an increasingly liberal, democratic style of government? Is the new president of Mexico, Mr. Salinas, solidly committed to progressive liberalization of the political system? And if he is, is he capable of overcoming obstacles within his own party?

Might there be a prospect for reaction and return to the old system? What is the strategy of the government in this regard? What are the position and the strategy and the prospects for the principal opposition elements now — the PAN and the Cardenista group — and is there any role for smaller parties? What are Mexican politics, how would we characterize Mexican politics today, and what will they look like two, four, six years from now?

How does the Congress function with substantial opposition elements in the lower house? What are congressional-executive relations like? They are certainly somewhat different than they were historically. What are the prospects of local elections over the next two, four, or six years, and for future presidential elections? How will this affect Mexican policy, particularly Mexican economic policy, and how might it affect Mexican foreign policy, particularly relations with the United States?

With those brief introductory remarks, I would like to throw the floor open to people who are far more involved in this on a day-to-day basis than I am and far more informed.

Ricardo Villa-Escalera Escalera: Salinas offered the country three general agreements or *acuerdos*. One has to do with the economic roots, one has to do with the fight against poverty, and the other one has to do with the reform of the electoral law.

Now, as you know, we have in a way pressed him to start discussions of this new electoral law immediately. We feel that we should start right away because there are elections between now and June in several of the states, and we want to reform the new electoral law. But I do not know what is going to be the outcome of this proposition that we have made to him.

As for the law in itself, Congress in Mexico wants practically to have a complete say in the law and wants to avoid having the executive branch of government and what we now call the Electoral Commission control the elections. In other words, our point of view is that the political parties and society at large should be totally responsible for all on the treatises on the electoral process.

Salinas just had a very important interview with the general manager of the newspaper *Excelsior*, that made front page news. And he insisted that the executive and Federal Election Commission should be in charge — in other words, the government should have the ultimate control of the new electoral law.

I think that is a fundamental discrepancy that we have, and I would like to have the opinion of the people here on this.

Mr. Perry: Is that for elaboration of the law, or implementation?

Mr. Villa-Escalera: For the implementation. For the elaboration, the Government again is going to institute what is called *consulta popular*. Of course we do not trust in any way the *consulta popular*, because it is all prearranged. I do not know if other people from Mexico would like to say a word.

Javier Livas: I agree with many of my fellow Mexicans that, as Bill Perry just said, Mexico is going through profound political change. The 1988 election was certainly something that shook all of the Mexican society, even its foundations. It is obvious to many that the PRI split up into factions, one headed by Cuauhtemoc Cardenas and the one that is in power. And I think this was something that the PRI did not expect. The end result has been a unique rebalancing of power in Mexico, but I see this mostly as a potential for change that can, at this point, take any direction.

I have at other times stated that this new equilibrium is very fragile. Why? Because it is split, I think, very evenly among the three main blocs that resulted — the PRI, the Cardenistas, and the PAN. Regardless of what the figures about the electoral results say, it is very strange because the PRI and the PAN seem to be coinciding in certain things, perhaps economic policy. And the PAN and the Cardenistas are coinciding in the democratic aspects, the political and mainly electoral aspects.

Then everybody fears that perhaps underneath the surface of all the speeches of the PRI, and given the way they handle things, they would be very likely to lean toward the Cardenistas' policies at any given moment. So this is something beneath the surface, and it is very hard to tell what are the real purposes of the PRI and the new Salinas administration.

This, I think, brings us to the choice that is being made right now — and this is where perhaps the policies of the U.S. come into the picture — what should be done first? Should economic reform take precedence over political reform, or should political reform be the thing to look after and then let economic policy follow? Or should both changes be made at the same time?

I hate quoting myself, but I warned publicly that we were going toward desktop elections. I warned that the election was going to be

rigged, and that the figures were going to be hooked in the desks, and that is exactly what happened in Mexico in 1988.

Mr. Perry: You mentioned that there was some coincidence between the PAN and the PRI, at least the present PRI, on economic matters, and some points of agreement between the PAN and Cardenistas on political questions. Are negotiations going on between the PAN and the government on economic matters, and what is the state of relations between the PAN and the Cardenistas on political cooperation? Is there some effort by the Government to talk to both of them as well? Is this going on? And how are the parties comporting themselves?

Mr. Villa-Escalera: Unfortunately, I do not have any experience inside the government. I do not know if anybody here has been in the cabinet, but a political alliance with the PAN is difficult. It is only on the voting right of the people, because they say that the basis will be confused if a political alliance, for instance, between the PAN and the Cardenista movement is undertaken.

As for the PAN and the PRI, it seems that, whatever economic policies the PRI plans to implement that seem to be all right in free market economics, the PAN will uphold in the House of Representatives. That is what the PAN has said publicly. But we have to understand that alliances in Mexico, especially public ones, are not common, because we have not had a true party system for too long.

David Asman: Well, they are common, but they are not commonly kept.

Daniel James: Could I make a suggestion? We have heard from the opposition. If we could fill in the official point of view, I would like to hear what Mr. Ffrench has to say.

Leonardo Ffrench: Let me just state that all of the participants here are speaking on a personal basis, as far as I have been told by all of them. I mean, they are not official representatives; however, Carlos Sirvent is a distinguished member of the official party in Mexico, and as such, a representative of Mexico.

Carlos Sirvent: First, I would like to cite some of this century's several political reforms that have been produced in Mexico, so that you can

understand within the historical context why there have been so many historical reforms.

And within that context, in the second place, I would like to say what is the position of the PRI regarding those reforms and regarding their evolution, and what are the prospects that we are seeing in Salinas's policies and what do we expect from them? In Mexico it's completely certain that electoral processes were not invented last year. The Mexican Revolution of 1910 had its origin mainly in a struggle towards electoral democracy. It is important to point out that Francisco Madero, who led the Mexican Revolution, participated the next year (1911) in the elections that took place, and he won 99 percent of the vote without any opposition. This story repeated itself in 1920, when General Alvaro Obregon won the election with 100 percent of the vote.

Therefore, what seems to be the core of the matter is that nobody could speak about electoral fraud, because of those low outcomes, but there was no opposition, and so what were the forces that were actually participating in those elections? That situation repeats itself during the whole history of Mexico in this century, and you find that there is a party that envelops practically all the sectors of society. Therefore in the elections, they get outcomes that are higher than even 70 or 75 percent of the votes, which has been the case.

The question should be why the PRI has won during the 60 years since it was created. It is the National Revolutionary Party, and in all the elections, that is for President, for Governorships, for Senators, until now there have been just four seats that were won by the opposition. Why has the PRI or the party in power won them all?

Any serious historical analysis should come out with a conclusion on the reason why the PRI has won all these elections. What has to be studied and analyzed is that the PRI as such has been a globalizing and inclusive party that has had the means, the capacity, to negotiate in the political market with all sectors of society.

And therefore, until now, it seems to have won all these elections. During these years, the system or the party in power has initiated and proposed a lot of reforms, mostly political reforms, which have taken place during Terraza's time in Chihuahua. However, we have to admit that these reforms were not the consequence of pressure from the opposition parties, or even from the society as a whole, but mostly as an internal initiative from the same system in power.

Why has that happened? I have an explanation for this situation. Since the 1910 revolution took place, the need was felt and therefore the idea evolved of creating as many political reforms as were necessary, in order to open the electoral processes to participation from as much of society as possible. So therefore, before 1977, when any reform in the electoral law, called the "Law for Political Organization and Electoral Processes," was enforced, the official registration for the Communist Party did not exist. It was cancelled.

And when the electoral law entered in force, it was opened. In 1977, not only the Communist Party, but several other parties from the left were registered as official parties, since the idea was to introduce electoral reforms, to open the spectrum and the participation in politics from several sectors of society.

I would explain this initiative and these reforms in the same way that the previous reforms can be explained. The political reforms go hand in hand with the national development of society, and so therefore, Mexican women are allowed to vote and to be elected, which was not the case before that time.

The present initiative for electoral reforms, however, has a main difference with the previous ones. That is that the previous ones did not have any element that came from the opposition, and this is the first time that the reforms are also considering the point of view of the opposition.

The current reforms that are being studied are not the initiative of one single person. And it seems silly to think that it is a consequence of the social pressure of the mobilization of the society as a whole. The question should be why the current electoral code, which was put in force in 1986, became obsolete so soon, and why they are speaking about new reforms to the electoral legislation.

I have two explanations for this. The public federal electoral law is a very polished piece of electoral legislation; however, it is too complex for the society as a whole to understand. It is too difficult to read, and it is too complex for the society as a whole to agree with.

The complexities and the difficulties of the current federal electoral code are so terrible that even intellectuals had trouble with it. The debate last year was mostly about its contents. Several persons were arguing about the possibility of opening the electoral packages, the electoral outcomes, where all the battles were contained. And even

distinguished Mexican intellectuals like Pablo Gonzales Casanova, without knowing the contents of the Federal Electoral Code, argued exactly the same, that it was necessary to open the boxes containing all of the ballots.

Now, what can we expect from these reforms? The political parties, the opposition parties are participating in the consultations about the reforms to be introduced in the electoral legislation. Probably some persons at this table do not believe so. However, the purpose is to make it easier, to make it simpler for the whole society to understand it and to foster their participation.

To finish, I would like to point out that the opposition in Mexico is not naive. The government knows that now, as well as the opposition, and therefore the government can also state that in those areas of the country where the opposition is strong, elections can also take place that are tainted with fraud.

There are already two recent cases of electoral fraud. For instance, in the State of Baja California, the National Democratic Front won the presidential election. And in that particular case, the voting population turned out to be a higher amount than the whole state population over 18 years of age who have the right to vote.

In the Federal District, it happened exactly the same, where the PAN contested the victory of the National Democratic Front, arguing that there was electoral fraud.

For its own convenience, the government itself wants to end the fraud, to make the outcome clearer, since it is only a convenience, and therefore the government itself is promoting and fostering these new electoral reforms.

Mr. James: I sat here and marveled at Senor Sirvent's analysis of Mexican history. Apparently, according to what he says, everything went very smoothly for many years with reforms one after the other, and there were no pressures of any kind, and this all came from the ruling party. And so you come up to today.

It seems to me that he is not taking into account movements of a protest nature and in opposition that go back at least to 1929. Jose Vasconcelos was an opponent at that time and accused the ruling party of committing fraud. This is a very important step in my opinion in the evolution of Mexico.

I have never heard of a democratic society that did not have struggles of one sort or another, going back to the most recent cradle of democracy, in Britain, where people fought for one reform bill after another — 1832, 1867, 1884. And so if there is no struggle going on in the country, and everything is dictated from the top, this reform, that reform, it means that the country is dead, which is not the case in Mexico, of course. Since Vasconcelos, there was the case of Almazán in 1940, and then we had the case of Enriquez in 1946.

And so there have been movements of opposition to the ruling party, even when the ruling party was very young. These struggles ought to be taken into account if you are going to give a valid, fruitful history of what has been happening in Mexico.

Of course, it is important to point out that there has been, in recent years, particularly since the 1982 crisis, a revolution going on. I think we have to recognize there is a democratic revolution going on in Mexico.

We can say that it began in earnest in Chihuahua in 1986. Now, what was the Chihuahua election all about? It was precisely against the dictatorial methods. The arbitrary methods used by the ruling party, not only in terms of the Federal Electoral Code, but also the State Electoral Code, which stacked things against any opposition group, and particularly the PAN.

The PAN goes into that election with a commanding lead, having control of seven city halls in the major cities of Chihuahua, and approximately 70 percent of the population. And on the night of the election, the PRI did not even wait until the returns were in. I was in Chihuahua, and I covered that election. Right on that evening, the PRI was already announcing that “we have won this election victoriously and overwhelmingly” and all that sort of thing. And the PAN is wiped out in the State, practically. Now, it seems to me that the test is going to be coming between now and 1991.

If Salinas and the PRI are going to continue along those lines between now and 1991, when the midterm elections take place, I have the feeling that we are going to be in for some kind of tragedy in Mexico, which I would not want to see, having lived in Mexico such a great part of my life.

And so, this democratic revolution is now at the crossroads. Either it can take a peaceful turn — and I hope that it does, and I hope that

Salinas and the PRI do realize that they have to really push democracy all along the line, not only in terms of electoral reforms. But that first one is to put elections in the hands of the parties, and take them out of the hands of the government. The government should have nothing to do with running an election anywhere in Mexico, either on the federal, the state, or the local levels.

This is not democracy, no matter how generous the law may seem to be. It cannot be fair, or generous, as long as the government is interpreting it, and putting people there to see that its interpretation is carried out, because all of the electoral councils and on all of these levels are in the hands of the PRI. The PRI has a majority in each case.

I think it would be a total disaster, a catastrophe for Mexico and also for the U.S., if there were any movement to overturn the PRI. Some way should be found, compromises should be made, so that the PRI remains in power, at least during this sexennial, and the best way it can do that is by listening to the people, what the people are saying.

It is not a matter of someone who has got 50.3 or 50.7 percent of the vote, or whether he got 49 or 48. The fact is that the Mexican people are sick and tired of being ruled by one party. After all, Mexico is not the Soviet Union, and even the Russians are now getting tired of one-party rule.

So let us see some *glasnost* and let us see some *perestroika* in Mexico on the political level, because I doubt seriously that there will be deep and wide economic reforms unless there is a political solution.

Man does not live by bread alone. He has to find some way to give an expression to his innermost feelings, wanting to be a human being, and not have the police knocking at his door, and not having his party's vote taken away from him because of something going on in *gobernacion*.

So Mexico is at the crossroads, and I believe it is democratic. Its democratic revolution certainly is going to have to choose between now and 1991, at least, what and whether it is going to take a peaceful revolutionary way, or the violent revolutionary way. And after all, let us remember that Mexico does have a history of violence. Thank God it has had all of these years of peacefulness and stability. But when we look back at the last century, we see that the Mexican people are capable, when they are upset, of rising up with arms in hand.

Let us do everything possible to avoid that catastrophe. The ball is in the PRI's court right now, and nobody else's.

Mr. Asman: The electoral law, not just the new one, but past electoral laws, have been quite complicated. Most journalists covering Mexico do not pay that much mind to electoral laws. But what they look at is what actually happens, and where the orders come from about how an election is conducted.

Electoral laws in Mexico, as in most countries, are window dressing. The question is whether orders come from up on high to have a fair election or not. And in 1983, the orders came down to have relatively fair elections up in the North. And there were relatively fair elections up in the North in 1985.

And in 1986, the orders came down from up on high to make sure that the PRI won, and it just seems to me that discussions of electoral laws, of the intricacies one way or the other, are kind of irrelevant. The question is, are the orders going to come down this sexennial to have fair elections or not?

The three elections that we have seen, in the past year, indicate that it is sort of business as usual, and what journalists are looking for is that signal that comes from *gubernacion*. I do not agree that we can lightly see the electoral laws and the way elections are conducted in Mexico change from *gubernacion*. I think that *gubernacion* will control the show for the next six years.

But we journalists who cover the situation in Mexico are just waiting to see whether Salinas himself and *gubernacion* decide to allow the voters to decide who they want in a particular position. The whole discussion of electoral laws and how many hundreds of pages of particular electoral law, whether it is complicated or simple, is kind of irrelevant.

The main question is, are the orders going to come down to have clean elections? And that is what we are looking for.

Mr. Sol Sanders: It seems to me that we have the same old problem, and that is that we talk about parties in Mexico in some kind of conceptual way. This really has nothing to do with the way parties have grown and functioned in Western European democracies and the U.S., to the extent we have the party structures.

After all, parties are the product of representative government. That is why you have parties. You do not have parties from the top down. You have parties from the bottom up. What I would like to hear some of my Mexican friends talk about is whether or not we are seeing any evidence of change. Let us leave aside 1916 Constitutions and so forth. We know what the government of Mexico has been — it has been totally in the hands of the executive.

Are we seeing any attempt now by the Congress — not only the opposition parties, but by the government in the Congress — to actually take into its hands the functions that every Mexican Constitution has given it, but which have never been put into effect? My understanding is that the government now wants an electoral reform provision that requires a constitutional change, and they do not have the votes. That is my understanding.

Now, is it going to be possible to get from the Congress some kind of initiative that says they are prepared to reduce proportional representation, but only in exchange for real debates on the budget, real control of finances in the Congress? If nothing moves on that level, then it will not make any difference how many party structures are created in the air and how many of them have — and I say this to the opposition as much as to the PRI — how many of them have prestigious names and national committees.

It would not work until representative government began to take hold in the Congress. Now, I realize the answer to me is going to be a chicken and egg problem. You cannot get representative government until you get fair elections, and —

But we solved that for the first time. It was not very orderly, and it certainly did not help the dignity of Congress or the presidency, but we saw manifestations of popular sentiment in the Congress in these early days of this administration.

And elected governments and parliamentary democracies do not tend to be orderly, and I think that is going to accompany what goes on.

Mr. Perry: That goes back to a question I had: How is the Congress functioning in practice today? What is happening? I mean, you have a situation where there are two possibilities — a tendency toward the liberal, democratic models of Europe, which you are talking about, or

sort of bloc negotiations where the PAN and the Cardenistas behave as a bloc to try to force concessions out of the government, but not through normal parliamentary functions.

Mr. Ffrench: Let me answer that. There are alliances for tactical electoral purposes between the PAN and the FDN, when it is convenient for them.

How is the Congress operating right now? As Sol Sanders was stating, if there is not sufficient maturity to produce real constitutional changes, then you have to have politics. You have to have consultation with the opposition parties, either on the left or on the right. And depending on what the initiative of the executive branch of the government could be, it will certainly try to grab the support of either the left or the right.

But how is Congress working? It is not constitutional amendments, but only procedural changes? Well, as far as there is regulation also in the Congress, as everywhere in the world, and there is necessary only a simple majority of 51 percent of the votes in order to produce whatever changes are wanted. Of course, there is still a PRI majority in the Congress.

But Salinas himself has spoken about the end of a system where there was practically only one party, that the country is entering into an era where there has been, and there will have to take place, a political consultation within the different representatives of the different sectors of society. This means that politics is taking place, probably – I mean, in the sense that Sol Sanders was referring to – and it has taken place in Mexico, especially since the time of the inauguration of the current Congress.

According to several Mexican analysts, that was probably because that they were not used to having such a high representation within the Congress, and therefore I think they may practically make a riot. On the other side, you find cases as in Canada where a difference of 20 votes, a whole national situation about the free trade agreement between the U.S. and Canada is approved, and where Mulroney's position was at stake. That has been practiced in Mexico, and would certainly, according to the pressures of society, affect the initiatives of the administration, keep them working on the same things.

Mr. Perry: Does that apply in all sorts of regular legislation that the PRI proposes and disposes, but in terms of constitutional reform you would expect a negotiation, so that the day-to-day business of the Congress has not changed very much.

Mr. Sanders: The budget debate was more serious than it ever has been.

Mr. Villa-Escalera: The PRI won by two.

Mr. Sanders: But the debate was more serious.

Mr. Ffrench: And not only that. Within the PRI, since it is not a bloc in the center but a broad coalition of forces, sometimes those considered to be on the left wing of the PRI might join the initiatives from the FDN, and those considered on the right wing of the PRI might agree completely with the initiatives of the PAN.

Mr. Perry: Have they ever done so?

Mr. Ffrench: Of course.

Mr. Sanders: But now, what happens to Latina's twelve senators?

Mr. Perry: In the formal sense the very fact that they are there requires the government to act a little differently in order to avoid disorder, more because the measures they may propose may be so unpopular that they may affect prospects for the opposition in the next election. They are defeating their own opposition, in a sense, if they do not do things a little more sensibly. Then they might have a few years to go.

Vilja Woodcock de Villa: I just wanted to make two very general comments about what Mr. Sirvent said. One is that, when I learned anything about it, a democratic state was where the people could choose and dismiss their governments.

Now, I find it hard to believe that in the last eighteen years in Mexico, there has not been a considerable desire to dismiss governments, and it has not been possible. And so, my conclusion is that there may be a tendency toward democracy in Mexico, but there certainly is not a democracy yet.

And the other thing that I learned as well was that any kind of authoritarian party or ruling party or even a majority party in a democracy will not willingly ever give up the power it has, unless it is forced to by somebody outside of that party. And I find it extremely hard to believe that the PRI is a charming exception to this rule, as Mr. Sirvent seems to have us believe.

Jeffrey Gayner: It seems to me that the litmus test many of us look at is, does it enhance or does it reduce the power of the incumbents to get reelected? And as you know, in our House of Representatives, we have had the same party ruling for, I think, 52 out of the last 56 years. So it is not just a matter of talking about reform, it is what the net effect of reform is, although there is an important difference, in which a critical question in Mexico also is how the votes are counted.

I think we feel the votes in the U.S. are always counted properly, but the electoral procedures can be very important in guaranteeing that incumbents are returned to office, and this is why, it seems, for electoral reform to have credibility, it has to have bipartisan support, because otherwise clearly the majority simply pushes through something they call electoral reform. It is obviously going to be very suspect if the opposition seems to feel that it is going to reduce their chances of challenging incumbents in their positions in office.

And that is why electoral reform in Mexico, to be meaningful in the future, needs to have bipartisan support. That should really build the basis for a genuinely pluralistic, competitive system there, as opposed to what is often charged — that is, that the PRI wants to have an inclusive, broad party, and for the debate to take place within that party, rather than in the context of a multiparty system. That gets us back, obviously, to a very fundamental question.

Mr. Sanders: That is why I think this proportional representation proposal from the government is terribly important, because on the surface, what they obviously want to do is to reduce the representation of the opposition in the Congress.

On the other hand, my view is, and I think there is considerable historical support in Western Europe, in Israel, and in any number of places in the Third World, proportional representation tends to strengthen party structures. What that does, in a period of transition where you are trying to seduce certain elements of the PRI to move

toward your position, is to strengthen the hands of the parties against any movement. In other words, a representative in the Congress becomes less a function of his constituency, and his own political views, than he becomes a functionary of the party.

Mr. Perry: Could we just do a quick review of what the government is proposing, and what is it that the opposition parties want.

Mr. Villa-Escalera: This is something that has not been talked about, but since Reyes Heróles and José López Portillo modified the law, the main thing is that the PRI will never lose the control of Congress. Right now, if you look at the mathematics of the electoral law, they cannot have less than 250, 260 seats. So I suppose the main thing is to get them in a position to lose the majority in Congress by 1991. I suppose that is what we want.

Mr. Perry: But what does the government propose to do?

Mr. Villa-Escalera: Continue the *pluri nominales* (representation according to the plurality in the election), the government does not want us. The opposition has 240 representatives, the government has 260, or 263. So, I suppose that we want to have direct representation (*uni nominales*).

Mr. Sanders: I heard the government wanted to reduce it to 100, is that not right?

Mr. Villa-Escalera: Well, there are several propositions.

Mr. Sanders: My understanding is that they wanted to cut the number by half.

Mr. Villa-Escalera: We do not really know what the parties want, whether they want to do away with everything and just to have *uni nominales* elections, and forget about the *pluri nominales*.

Mr. Livas: If I may, could I go back a little bit, and do a recap of what Carlos Sirvent said? I do not have any difficulty in accepting that, at a given time, the PRI was in power because of a democratic process. My father was the governor of a state, and I am pretty sure that there were many elections where you could say there was democracy.

In the first place, we have to take into consideration that the situation is really very complex. I can say in favor of the PRI that the PRI used to have internal elections, while there was this vacuum in the opposition. There were numerous locations where the PRI conducted internal elections.

The only problem was with the internal forces of the PRI that say we have the Congress, and we want to have our candidates become the law, and we are going to stick to it.

There is no problem with that. Cultivate the members of the PRI to become smarter at the game of politics, start using the little opposition as sparring partner, and always be on top of the situation.

When Sirvent talks about the 1977 changes in the law, and when he said that the Law for Political Organization and Electoral Processes (LOPE) was changed in 1977, and the Parti Unista was invited to participate – well, you have to take into consideration there was a guerrilla movement.

And the government said, either we try to institutionalize these guys, or we are going to be in trouble. And so, they opened the system, and what did they do? They went over the heads of the party. They went beyond what the parties perhaps expected, and they said, let us institutionalize these parties.

So what happened? They created in 1977 a lot of little parties, and of course this played against the PAN, because the only reform that was needed was clean elections, and a two-party system would not evolve just like that.

The first election that was won by the PAN was with my father as governor in 1965; this is twelve years later. Was the PAN growing? No. It was decreasing. Why? Because the government starts playing with all of those satellite parties, and they have been managed, and they have been subsidized and what does the law say in the LOPE? You have to have this kind of statute, you have to have this sort of organization if you are going to receive funds from the government.

And then the people in the PAN and in the *PSUM* (United Socialist Movement of Mexico) start worrying about these subsidies and all of that, and they forgot about the real purpose of business or of government.

So you can see what is going on. The PRI is adapting to the country's problems, not through better government, but through electoral fraud

and chicanery. It is adapting by giving little candies to the heads of some parties, but this thing could just keep growing. The demand for democracy keeps growing and growing and growing.

What happened after the elections in 1985, and the Chihuahua elections in 1986? People start asking, is the PAN ever really going to be in charge?

Mr. Asman: By the way, that is the same tactic that the Sandinistas are using in Nicaragua right now – trying to create as many little parties as possible.

Mr. Livas: One of the great mistakes of our country under Lopez Portilla was that they fell for the Sandinistas' idea that the Sandinistas were going to emulate the PRI. And then we felt that our revolution was going to be the greatest thing to happen to all of the continent.

That is why we subsidized the Sandinistas with thousands and millions of dollars, because we thought they were going to follow the path of the Mexican Revolution. We can teach them how to steal elections and everything. It was ridiculous.

Now what happens, Cuauhtemoc Cardenas and all of those guys see there is a enormous demand for democracy, and say, look, we have a chance to play up ourselves, even if it is outside the PRI. So let us give it a try, let us try to get control of the PRI. If we cannot, then we go outside.

And that is just what happened. And I think that the PAN had an enormous opportunity in the Chihuahua, when everything was conjugated for enormous change. They did not because they had a leadership that is very fearful of the PRI, and in the given case, they do not want violence or anything, however you want to put it. And they just quit at the moment of truth.

And so now this is costing the PAN a lot of credibility – a lot. You can see the electoral results, and you will see that in those states where the PAN had done the best, they went into a relatively smaller role. And in Chihuahua all those states where the PAN had been number one, very close, perhaps, in competition to the PRI, or really disputing the power of the PRI, they fell, and not that many people went to vote for Cuauhtemoc.

Where did the PAN do all right? Where there has been no frustration. There had been no frustration in Jalisco, there was no PAN in

Jalisco two years ago. In some other places, that is where the PAN went up, and there was a basis for hope, even Baja California, and they say it is because of fraud.

They say that they did not open the package because there was a lot of confusion, this or that. They did not open the package because it would have shown that the PRI and the government do not have the capacity to administer or manage this process.

So it is very clear what we want.

I just sincerely hope that Salinas is smart enough and bright enough to be able to convince the people from his own party that for the good of the country, the changes have to be far-reaching. Because we are going to be checking, and we are going to denounce this, and we are going to do it through every means possible.

Mr. Perry: Let me just see if I can capsulize it. A lot of people here are directly involved in this. There is obviously a lot of suspicion on the part of the opposition from both the right the left, and nonpartisan opposition as well, based in part on the traditional philosophy of the PRI, and in part upon the traditional performance of the PRI.

The philosophy was expressed in the sense that the PRI conceived itself as the representation of the people of the country of the government almost indefinitely. This was the conception of government, and nobody is to say that it is illegitimate or legitimate. That was their conception of it. And so when they speak about democratic reforms, it might make people who favor a liberal democratic system suspicious that this is just a temporary accommodation.

I would like to have the view from inside the PRI system, whether Salinas really intends to let this thing evolve toward a liberal democratic form of government, or whether there is going to be, or at least he intends to keep, a system that is traditional, and he continues to defend the idea that the PRI, by its very existence, is the permanent representative of the Mexican people in government. What is the intention?

Mr. Sirvent: The PRI does not want to lose power. I agree, certainly the PRI does not want to lose power. Never has there existed in the history of humanity a party that wants to lose power. Until now, through the reforms, the PRI has not lost control. My hypothesis is that the PRI has not lost control, and that that has been because of the

weakness of the opposition parties. In order to explain the strength of the PRI, the weakness of the opposition parties also must be explained.

Next, is Mexico a democracy or not? It depends on what we consider as a democracy. If it is only the bipartisanship of the United States, where the Republican party has remained in control of the executive branch of government for sixteen years – what is the question now exactly about Mexico? What are the purposes of Salinas, what are the reforms that are going to be considered? We have to begin with the fact that the Congress will have to intervene in the coming reform.

Mr. James: Does this mean that Congress will share power in the tripartite arrangement, or what?

Mr. Sirvent: In the case of the Constitution, the electoral reforms, it is impossible for the PRI to introduce electoral reforms that affect the constitutional aspects without the support of the government sector. This will be the first time in recent Mexican history that the opposition, through their representatives in the Congress, will be able to stop a reform that might not be right for them.

What are the options that are being suggested by the government for the electoral reforms? First, I agree completely that the electoral process has to be a social responsibility. The problem is that, when the opposition parties state that the electoral process should be controlled by the society as such, how did they understand that society? The parties, groups of people, sectors, or whatever?

But in that sense, we completely agree. We fully agree with that fact.

There is a discussion about who should participate. The position that I share is that the government should not participate in the electoral process as such, but it has the constitutional obligation to watch over it, to be above it. Otherwise, it would be an anarchic situation.

There has to be an independent body in the hands of the political parties that controls the voters' list. The other proposal that we are making is that the law itself must be extremely simple, extremely easy to understand.

I must be honest in telling you that, a couple of years ago, I had the task of explaining to the leaders of the mass media what the scopes and the goals of the law were, and I must admit that several public opinion leaders and editors of the main mass media did not really understand what the law meant.

This explains why there have been certain tactical manipulations, since each party has the possibility of interpreting the current law as it will, according to its own wishes, and therefore there have been tactical implementations and interpretations of the process.

As a conclusion, I might say that the intentions of President Salinas will be shown a long time in advance of the next elections. The intentions of the opposition parties will also be shown during the discussions and approval of the next electoral legislation, a long time before the next electoral processes take place.

Mr. Perry: Does that mean that Carlos Salinas's vision is an essentially liberal, democratic system, and not a defense of the traditional system, which said that Mexico was a democracy, but of a different sort?

Mr. Sirvent: There is certainly a discussion about this topic, since Salinas himself has spoken often about the modernization of the political process. Now there is discussion about what modernization means, and of course there is discussion about that.

For me, there is a deep change in Mexican political life. For me, it means that the cooption tactics of the past will not happen again, and we will enter an open-air political contest.

It is better for the party's self-image that the cooption of the most corrupt sectors of society belong to other parties than to that which is in power.

There is, for instance, the example of a lady representative who used to be linked to the PRI, who would control all the leaders of the public marketplaces.

When Manuel Camacho was the secretary general of the PRI, he stated clearly that the PRI would not seek to involve within its ranks every sector of society. Those who were not decent, suitable, or whatever, better let them go out, and move away from the party.

When Salinas was warned in the case of La Quina, the head of the Mexican oilworkers union, that it was dangerous to go against La Quina because the PRI would lose the support of a certain sector of its own members, he nevertheless took the decision to go ahead.

For several years — and this might be the most important change — the government itself has started a dialog with different sectors of society that have not belonged to the PRI or to the government itself, without seeking to coopt them or to get them in, respecting their

autonomy or positions. According to my own personal belief, the Mexican government has never been tempted to foster political bipartisanship.

Mr. James: As a matter of fact, de la Madrid said in Tokyo in December three years ago—before the intellectuals and other people there—that the reason the PRI is always winning is that it is the majority party, that the other parties of the opposition are extremist, and that they do not count for anything. This is the system that will continue.

Not only no bipartisanship, but no multipartisanship. That is what he said. Now, is not what you are saying a departure from that position?

Mr. Sirvent: No, I do not agree with your statement, because also four years ago, in Japan, de la Madrid was explaining the reasons that a hegemonic party exists in Mexico, and the reason that he gave, and that I share, was that the PRI was an evolving party, and an inclusive party, a globalizing party, that would incorporate in its ranks practically everybody, which is a practice that since that special moment has started to disappear. I certainly think that society itself will decide in the end how many parties and what kind of parties the society will want. I do not think that it is democratic to ask the Mexican government to decide how many parties there should exist.

Mr. Perry: The ultimate decider of this question is not us. Nor is it really even the Mexicans themselves, but whether the process maintains a certain amount of stability and proves itself over time. That is the question that has to be calculated, whether the process will continue to maintain the stability essential for Mexicans, and certainly very, very desirable for Americans.

If it is too slow, it might result in violence, and if it is too fast, it probably could have other results. I think it comes down to a question of pace.



**WORKING GROUP
ON MEXICAN
SECURITY
PROBLEMS**

January 27, 1989

Moderator

Delal Baer, Director, Mexico project, Center for Strategic and International Studies, Washington, D.C.

Panelists

Jose Luis Barros, lecturer, National University, Mexico City.

Enrique Berruga, deputy to the Minister of Press and Public Affairs, Mexican Embassy, Washington, D.C..

Jaime Darenblum, lawyer, professor of political science, University of Costa Rica.

Jonas Flores Carillo, President, National Political Association, Mexico City.

Charles Kendall, President, International Business Consulting, Hazertown, Pennsylvania.

David Martin, Standing Committee on Law and National Security, American Bar Association, Washington, D.C.

Jiri Valenta, Professor of Political Science, Graduate School of International Studies, University of Miami.

Wilcomb Washburn, Director of Office of American Studies, Smithsonian Institution, Washington, D.C..

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Mrs. Delal Baer: One of the things we should strive to do here is to extract from our comments what is relevant to the question of security. There is a concern in Mexico over the potential for U.S. intervention in Mexican domestic internal affairs and partisan affairs that could be construed as a security threat. People in the U.S. tend to want to look at current challenges to security; we tend to want to look at what the problem is right now. But ordinarily it seems that Mexicans would like to start such discussions about 100 years before the U.S. would. There are obviously real concerns behind that, because of this continuing and live concern over U.S. intervention in Mexico's domestic affairs. That is the kernel of that concern with history — at least for now.

Dr. Jiri Valenta: The economic issue alone does not take care of security. You have to link these issues. You cannot neglect the security problems, particularly it seems to me as far as Mexican national interests and American national interests are concerned. You cannot ignore the issue of Nicaragua, or El Salvador or Panama. We have to recognize that the Reagan Doctrine has been extremely successful in Afghanistan, in Cambodia, where the Leninist forces are either withdrawing or willing to negotiate the peace. Cubans are leaving Angola, Vietnamese seem to be leaving Cambodia.

In fact, Central America is today in worse shape than it was in 1981. We have to go to the causes of the problem. I suggested yesterday that what my colleague from Mexico is saying now is that you have to start with the historical perspective. You should not be afraid to touch the subjects that are uncomfortable for many Americans, like the acquisition of Mexican territory.

You have to start with the basic history and geography, and not just economics per se. The free market will not take care of the Leninist regimes, or right-wing regimes for that matter, that are threats to democracy and national security of the U.S.

That was in much of my presentation yesterday. And I think it is important to continue looking at the security issues, how they link with economics, not to be obsessed with economic forces alone.

Charles Kendall: Just to lay a little more groundwork on this, I think the overall security problems are deep, and we have touched on them yesterday, but certainly we are talking in the long term about economics and politics and so forth.

But then what are the physical security problems? I think right up here in the U.S. we have a number of problems from the sense that for years we have not had foreign policy that was coordinated in any sense of the word.

And in recent years, no president has made the State Department follow up on his policies. That is the problem. I think, even sitting here in the Mexico working group, any working group, listen to people from the Department of State, Treasury, the large bank representatives, and ask them when was the last time they thought about the rights to private property. They could not have an undergraduate college discussion in political philosophy or history any more, and that is a shame. That hurts, when you are trying to define some of these things. When you get over to the economic side, everything else, I believe, is moot, if the rights to private property in some form are not addressed.

Wilcomb Washburn: I would like to raise two questions and direct them to Latin American friends.

One relates to the role of history, as Constantine Menges brought out when he said there should be a statute of limitations. And I do not think our Mexican friends particularly accept that, but on the other hand, if you do not have a statute of limitations, you can go back even beyond the mid-19th century. You can go back to the 16th century. After all, the Indians have grievances against the people whom we consider to be the Mexicans, just as the Mexicans have grievances against the U.S. So I wonder what our Latin American friends think about that proposed statute of limitations.

The other question relates to an aspect of security that I am not sure has been brought up. It is the question of massive illegal immigration and the right, if it is a right, of the U.S. to defend its borders — you even have this most recent remark about a Berlin Wall in reverse — to keep out excessive numbers of illegal immigrants.

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How do our Latin American friends feel about the right of the U.S., as an aspect of its security, to literally create a defense against such immigration? I would like to raise those two questions.

Mrs. Baer: Great questions. If I could add one to that I would ask regarding the statute of limitations question, whether or not it is possible to abstract from history what is relevant today, so that we can indeed talk about what the kernel of our security concern is.

If the reason for the return to the discussion of the Mexican-American War is a concern over territorial loss and U.S. aggression, is it not possible perhaps to talk about that in present-day terms and whether or not this is a fear that is rooted in perceptions? Is it a real fear?

So I think those are wonderful questions. Do any of our Mexican friends want to respond?

Jonas Flores Carillo: I would like to introduce a suggestion. If these meetings are trying to propose something practical to U.S. policy makers, I would like to state that the security concepts are not so different here than there.

For us the security concept is a question of military men or policemen. Politicians do not talk about these problems because for us political is a question of security, which is a very speculative concept. When we are talking about security in the books, in the academic field, we are talking about hierarchies, spies, missionary fanatics, or subversive people. But in the military field it belongs to soldiers and policemen.

We are not concerned with security. But here is the difference. It is something I would like to introduce: For Americans, I believe security is a wide concept, that whatever might be unfriendly to U.S. interests is security problem. For us it is not.

For us security is a question of military – I have been involved in politics for years. I have been reading and writing and teaching, and let me tell you something about our military establishment. Every single high Mexican military official has been trained here, right here, at West Point, or wherever you like. We do not send our Mexican officials to Cuba or to the USSR. When we send them, they are very old. Old generals go to the USSR on vacation. Let me tell you that.

So I would think for you, the concept of security is a problem. I do not think you do not know what is going on in Mexico in security terms.

The problem of the American government and people is that you do not know how to react. That is the problem. You do not have the means to react to your security problems.

Anti-American feeling is a fact. It is a national fact. It is an everyday fact. It is an every moment fact. Wherever you go, high society, middle class, or rural society, you are going to meet anti-American feelings all over.

So, my complete proposition is this. The U.S. and Mexican governments will continue challenging, or rather fighting, each other. But I think Mexican and American private groups, social groups, can do something starting now – private businessmen, churches, the evangelical church. You have not been able to understand this.

The strongest force against communist forces is the evangelicals. But you do not notice that we are millions in Mexico, millions of evangelical people. We have a very strong evangelical church. We alone will stop communists with a little bit of help from our government. Let me explain this to you with examples.

You give our government money to fight injustice, and also, communism. And the Mexican government gives free time, a lot of time on radio and TV, for communists to spread their philosophy. But the government does not allow any Christian organization to speak, to spread, to broadcast the gospel. Can you believe that? You can check that.

So private businessmen, churchmen, groups, all the people who like American football, all the athletic groups, the artists' groups could be doing something. Mexican and American – there is not much hope for our bureaucracy or your bureaucracy. They are going to be fighting because it is nice to fight. I have been one of them.

Enrique Berruga: I basically do not agree at all in what has just been said. The only thing I could agree with is that we have different assessments and understandings and concepts of what security is about.

The main difference is between the global interests of the U.S. in the international arena and the more concrete and immediate interests of national security in Mexico.

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There is a phrase that probably sounds nice more than it has substance, that we should trade nonalignment for nonintervention. That is probably a tradeoff, a starting formula in this aspect.

Mexicans indeed are worried about intervention in domestic affairs. That is for sure. The bulk of Mexican trade, for instance, 70 percent historically, has been with the U.S.

If there is some change of attitude or if the whole political environment between the two countries became contaminated in some fashion, Mexico would suffer. It is vulnerable to its trade with the U.S.

The many ingredients for productive plants are based on what we import from the U.S., and this is one of the most active relationships in all senses between two countries.

Well, I would like to move then to the interests part of the story. Interests are very different, naturally, I would say. This is a global power that is highly militarized, highly technical, highly industrialized, while Mexico is the second least militarized country per capita in all this hemisphere.

It is a developing country, and its political concerns are mainly focused on its neighbors and on an idea and a desire for diversification of relations. Our means of security are mainly based on the diplomatic field. We do not rely on military force or the assertion of strategic purposes as such.

Our closer environment, our most friendly environment is Latin America, by culture, by history. Many Latin Americans come to Mexico and tell us that we are not only the border with the U.S. but the border of Latin America with the U.S. That is another sphere of interest that we share with Latin America.

As you know, it is the only border in the world that is very stable, regardless of having the most crossings yearly in the world. It is not militarized. And that is an asset that the U.S. should always think of as something very valuable. Think of the borders of the Soviet Union, most of which are militarized.

That is an additional political expenditure that the Soviets have that you do not have, probably because of their weakness. But say Afghanistan was as weak as Mexico could be vis-à-vis the U.S., and look at what is going on there.

Just to spell out the agenda, I would say that, from our standpoint, arms smuggling from the U.S. is becoming a matter of concern to

Mexico. There is an increasing illegal trade of weaponry into Mexico. That is one of the latest concerns. And we do not generally know where they are going — in some cases we do, in some cases we do not.

The role of the economic security force is crucial to make sure that we live in an environment safe enough to permit Mexico to keep on pursuing its development policies. We believe that we have the best recipes for our own country, in that we know best what to do in terms of economic development.

And we know our country and our people, our needs, better than anybody else in the world. And we would like to address them with our own ideas and with our own policies. And that is one fact of vulnerability that we do not like to come to terms with.

The border is military and physical. There is more concern with the southern border than with the northern border, even though there is increasing migration from Central American

countries into Mexico, using Mexico as a transit point to the U.S. That could become a problem of security as well, because we might have some kind of friction with the U.S., because of such migration.

And we have this problem of consulates, many consulates of Mexico here, people pretending they are Mexicans, they are shipped back to Mexico but they actually are from some Central American country. So we are even trying to find out the best formula to find out whether they are actually nationals from Mexico or other places.

Mrs. Baer: Before we go on, I would like to draw some things together here. I hear some real answers and responses here to your question of whether or not there is a statute of limitations.

I hear partially in your answer that anti-Yankee sentiment is a cultural fact, historically rooted, that could continue indefinitely, but that there are perhaps ways of changing our cultural perceptions of one another and that perhaps we have not been doing enough in that regard.

I also heard an interesting connection between Mexico's territorial concerns and concerns about U.S. intervention in domestic internal affairs.

The U.S., of course, is concerned about a Soviet, potential Soviet, or hostile presence in Mexico, and you offered us a nifty little diplomatic formula here, nonalignment for nonintervention. Now, it would be

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interesting perhaps at some point to explore in a little more depth whether that would be bones that one could put greater flesh on. What does nonalignment mean? It is a very shifty kind of concept. And at some point one would want to be really quite practical about it, about what it meant. And I think the same of finding out what nonintervention means. But there are some interesting answers and replies going on.

Dr. Valenta: I think we have to face the issue of immigration, and Mexicans have to understand that at one point we would have to control the flow of immigrants precisely for the reasons that there are many of them who are non-Mexicans and are coming from potentially hostile nations, or at least from nations that have hostile regimes.

The second issue we should talk about is Central America. You might think I am obsessed with that, but it is in that region that we can test some of the concepts which you suggested, nonintervention or nonalignment.

I am not very happy about that concept, because Mexico is supposed to be nonaligned now. So what do you have to trade for it? But Mexican politics is very curious.

The flow of immigrants, the fact that we did not stabilize Nicaragua, El Salvador. You know, it is your issue too, because we are both regional powers.

Mrs. Baer: I also would make one more comment on the nonalignment question. Nonalignment is very slippery. As Jiri Valenta said, it already exists, but there are some problems there, and I would mention the Russian and East European intelligence presence in Mexico City, which does not look or feel like nonalignment to us. It feels like a problem to us. And so I would simply throw that one out.

Mr. Jaime Daremblum: I wanted to comment on what Professor Valenta mentioned. I think his points are very well taken, particularly in the sense that, aside from the fact of whether or not the cataclysmic scenarios will happen or will come to reality in Mexico, the fact is we have already a very large military and diplomatic intervention in domestic affairs in Central America from the Soviet bloc, particularly based in Nicaragua, which is spreading all over. Mexico has played an important role in fostering this type of intervention.

So even though our Mexican friend here has spoken of the favoring of diplomatic and nonmilitary solutions to problems in the area, the problem is that Costa Rica, which is the least

militarized country in Latin America (because it has no army) has on its border the most militarized country in Latin America, Nicaragua, which is on a per capita basis more militarized than even Cuba. So I think Central America should figure very prominently on any agenda discussions or relations between the U.S. and Mexico.

On the other hand, I do not think we can separate the problem of drugs from the problem of security, because there has been a merger in the business of subversive terrorist groups and drug groups in Latin America. Central America is a very important bridge in the drug trail to the U.S. via Mexico, as a matter of fact, not so much through the Caribbean as through Mexico. Only Costa Rica annually has detected close to 15 metric tons of cocaine going from Colombia to Mexico, or from Mexico to the U.S.

So I do not think we can separate those issues aside from the practical point that, as I understand, the group that was working on narcotics was cancelled. So we have a practical point and a reality that we have to face.

Frederick Guardabassi: I would like to agree with what the gentleman said. I am not a government official. I speak as a private citizen who lives in south Florida, who is very much aware of the pressures in Central America and in Latin America, and as a student in college of Latin American affairs — that goes back some years.

But I really think that our problem of security is for all of the countries, the freedom-loving democracies in Central America, and I have to bind Central America to Mexico, because it is on the same peninsula, so to speak. They are interrelated, you cannot separate what happens in Nicaragua and Panama from what happens in Mexico, as far as I can see. We are talking about mutual security, security for the freedom-loving countries, the democracies of Latin America, and freedom for the U.S., from those outside pressures, particularly the Soviet Union.

It started in 1959 when Fidel Castro, who billed himself as the agrarian reformer, became the communist dictator in Cuba. He is still

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there, and he has been exporting revolution, subversion, to all of Central and Latin America, including Mexico.

I believe the gentleman mentioned that there are subversive Eastern bloc representatives in Nicaragua, and that they have gone into El Salvador, Honduras, Mexico, and all the other countries.

And part of U.S. national policy has been, up until 1959, an enforcement of – or at least an adherence to – the principles of the Monroe Doctrine, which stressed that these countries would be secure from the intervention of foreign powers.

I think that is something we have to think back on, that we cannot abandon the principles of the Monroe Doctrine, that inter-American hemispheric security is of paramount concern to all of us, whether we live north of the Rio Grande or south of the Rio Grande.

This is a very real problem. And it was pointed out, I think, by Ambassador Gavin when he said that there would be approximately 50,000 troops returning from Angola, and what were they going to do? What was Fidel Castro going to do with them?

Well, I do not think they are going to go back to the farms, unless they have been trained. They probably would, the individual soldiers would very much like to go back to farms and to farm. But I think once they have been trained in guerrilla warfare that they are going to be used for other purposes.

So I think that Mexico and the other countries have to be aware that, although *perestroika* and *glasnost* may have occurred in parts of Europe, they have not in Czechoslovakia. The attempts of the Czechoslovakian people to assert their freedom and independence were crushed.

As of yesterday they had Soviet agents and military and police people putting these elements of freedom down. So it serves its purpose when the Soviet state wants to allow a certain amount of freedom to show its flexibility, and then at other times when it becomes a danger to the state, as also in the Ukraine, it suppresses it.

So we have to realize that the tentacles of Soviet communism are not just an economic way of expressing a desire to socialize all of these countries, but it is a military objective as well. This is our concern, and I think it should be a concern, as Americans, of Mexicans, Hondurans, Nicaraguans, El Salvadorans, and Guatemalans, and all of those people.

Mrs. Baer: I am fairly encouraged by the emerging consensus, at least at the executive branch level, that we are seeing between the U.S. government and the Mexican government on questions of narcotics, operational alliance, and a number of programs. We have to address the concerns of arms flowing into Mexico — perhaps by trying to work with Mexico to trace some of the shipments and so forth.

Obviously, though, I think there is a lot more that can be done in a mutually cooperative fashion. I have to say that at this particular moment, politically, I am terribly concerned that the U.S. Congress is going to create some very disruptive factors in our effective cooperation with one another. And these unfortunately are sometimes political occurrences that our friends in Mexico do not necessarily recognize, that are certainly outside of the control of the executive branch administration.

There may be the best of good will working toward mutual security on narcotics questions at our executive branch levels, but the best-laid plans can really go awry sometimes at the congressional level in the certification process, as you all are well aware. But it does seem that border security in the narcotics area is one of the opportunities where perhaps we have clear mutual interests, and we can avoid some of the problems of history and perceptions.

Dr. Valenta: Can we ask our distinguished Mexican and Central American participants if what you just said could be implemented? Perhaps joint border patrolling.

How can we enhance security, physical security on the borders, on the U.S. side? Can both of us help? I do not like digging ditches too much because I feel that it affronts Mexican sensibility and pride. But there might be different ways of joint action with Mexicans who understand the same problem of drugs and subversive weapons, which you said were coming from outside.

Mrs. Baer: Joint customs, for example. We have a bi-national eradication program that we literally implement together, in a very effective fashion. Well, sometimes not as effectively as other times, but nonetheless we are pushing the ball down the court. Are there other opportunities for agency-to-agency cooperation? Customs-to-customs, across the border?

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First of all, constitutional matters: the Mexican federal army is not allowed to go into civil business. Let me state that very simply. Soldiers should never go to civil business, and to take action inside our border is a civil problem. We do cooperate with the anti-drug agencies here.

Dr. Valenta: How about patrolling the borders?

Mr. Flores: No. Again, we go to the anti-American fields. To help Americans take care of a border is something we laugh at, because we say, are they really so scared, the Americans?

Mrs. Baer: Would you not like it if we patrolled our borders to prevent the flow of arms into Mexico?

Mr. Berruga: How would you like to have Mexican soldiers patrolling California or police or customs people —

Mrs. Baer: Customs or border patrol can assume new functions.

Mr. Berruga: Mexican people apprehending people in Arizona, for instance. I bring this up because of the effort that has been made lately, in order to help the so-called hot pursuit for drugs, as if that is a solution for the problem.

Mrs. Baer: Let us be a bit more modest in our objectives. We are not talking about actually crossing the borders, but patrols and information exchange, mutual patrols on either side of the border by nationals, by Mexican nationals on your side of the border, by American nationals on our side of the border, perhaps with information exchanges to help coordinate our activities.

Jose Luis Barros: I am sorry to go back to history, but we had in the past the experience of border patrolling. And this goes back to the beginning of the 19th century. And there was an agreement between both governments in which we shared border patrol.

Now, you do get the picture that our border was quite different in the beginning of the 19th century than it is now. But in our experience it was not a good move in Mexican-American relations, because what did happen then was that border patrols did cross the borders. And then you had American patrolmen getting Americans or Mexicans on the Mexican side and Mexicans moving into the U.S.

And several frictions arose, not the least, as time went by, the incursion by Pancho Villa. So if you do consider the historical experience in reference to this matter, you will find there is a certain resistance on the Mexican side to establishing the same scheme.

Now, I am not advocating a military scheme, but I do know there have been other experiences much more recent and connected with trafficking, which were quite successful. So perhaps we should explore in that precise direction.

Mr. Kendall: Most drug and counterterrorism work is not at the border. It is having good working intelligence and doing things deep within a country successfully. There is no foolproof method. But having a few experienced people that get along with each other from both sides at certain key border points is really a matter of patrolling each of those borders.

General Odom, just retired as director of the National Security Agency, who is one of the brightest minds in the country and a distinguished Soviet specialist, has suggested we create a new department that deals with the border patrols and centralize our headquarters on American borders to supervise the drug flow and so forth. I wish he could have been here to discuss that concept with us yesterday.

But how would you feel about suggestions like that? That the U.S. government implement taking care of the borders in cooperation with Mexico and other neighbors by increasing the patrolling and centralizing the command of various agencies that deal with the problem?

Mr. Barros: I am sure that the Mexican government would have to have a look at it. And I would say, of course the American government would be entitled to take any measures it finds fit to secure its borders, as long as it continues to be respectful of Mexican independence, and of course as long as the government is also concerned with what the implications would be in human rights, for example. We have not had a very good record on human rights precisely in border patrolling. So I think those two concerns should be regarded.

Bob Phillips: From a younger person's perspective, or the next generation's perspective of U.S.-Mexican relationships, the idea would be that we have a border and a situation, as we had with Canada to the north.

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In other words, most of these other problems would go away, because all people would not want bad things in their country. I do think that we have to have a statute of limitations on the history perspective. I do not think our nation was able to deal even with the racial issue of our own country until we had a statute of limitations, that we could not all go back to slavery and pay the debt for slavery, so to speak.

I think there has to be a starting point where, if Mexico wants to be for freedom or if the U.S. and Mexico would like to have a relationship, you have to start from now and say that this is the opportunity for Bush and Salinas to change things around. It took only one person, Gorbachev, to change things around in the Soviet Union. Whether he will succeed or not we do not know, but he has certainly had an effect.

I think everybody has to have an idea of his own history and appreciation of somebody else's history. But we could argue for the next ten years and sit around at discussion tables such as this and contemplate the past but not move toward the future.

I myself, as an American, am opposed to digging a ditch for security reasons. If I were a Mexican it would be almost like the Berlin Wall. And we are against that. Americans are against barriers, so to speak.

Mr. Flores: I am very impressed with your sincerity. But I think you missed this point. We are Mexicans. When we see the Cubans challenge you, we think, that is their problem. It is not our problem. But you said we must be conscious that it is our problem. But we are so few. To understand this is a problem of ours also, who understands that?

Let me tell you, ask newspapermen for them to ask people. Do Mexicans feel that they should be on the side of the Americans or not? Who is going to say?

Dr. Valenta: He is saying you have to go with history — you cannot just sweep it out — in order to understand how they feel. Somehow I feel very strongly we have to talk more about it and demonstrate that we are a special friend. That has not happened. At least they do not feel it, they do not believe it.

Most of the intellectuals, particularly on the left side — it is incredible how they misinterpret history. Their question is what can we do about it? So they do not think we are the enemy, that we have this common interest.

Mr. Flores: You have some beautiful things, like scholarship, all those things. Go to the campuses, help us to go to university campuses to spread Christian ideology. You will never stop communists with spies, with guns. You are only going to stop communist ideology with Christian ideology. No more than that. When are you going to learn that? I do not know. But we are ready to help you in the field. It is a question of the location.

I grew up in a boarding school. I learned Marxism-Leninism from the school. I am a Christian now. And I know there is no way to change our education soon. You have to deal with a new generation of professors. They are anti-Americans. Choose ten, you will find nine.

Dr. Valenta: Education is a very important point. We have done a survey at the University of Miami of most of the teachers who deal with the Soviet Union and communism in Latin America. You will find out that 95 percent of them – and I do not mean to be offensive to Mexicans – it is not necessarily true what you say, but over in Latin America 95 percent of them were educated by universities with a radical approach toward the matter.

Unfortunately, under right-wing regimes, study of Soviet foreign policy is forbidden. That was the case in El Salvador – I do not know if it is true about Guatemala – and other countries.

So, we do not have informed faculty in Latin America. They do not have the professors who can address the issue of superpowers and what is in national interest, communist subversion, and so forth, because they do not have the people who know, who would present at least the objective liberal point of view from American side.

Mexico has about three or four good Soviet specialists. But most of the other nations in Latin America do not – you have somebody from Costa Rica, the distinguished gentleman here who is teaching, and he can tell us that it is a struggle. That is the problem, the history and education are an everlasting problem that we have.

Mrs. Baer: It is extremely difficult because, while the Ford Foundation and then the Rockefeller Foundation might become involved in promoting scholarly exchanges at the very elite level, at the universities, the problem you are discussing is really even more fundamental. It is more fundamental than exchanges at the Ph.D. level. I think you are

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talking about education at the primary school level. And that is something that really is a sovereign Mexican question.

I am not quite sure, and perhaps you could suggest to us, what constructive thing we can do together to promote a harmonious environment. So I would throw the question back to you. It is indeed a very fundamental question, it is a question of Mexican choices, and Mexican choices that are certainly viewed with quite a bit of concern in the United States. Certainly when we read your textbooks and see that we are painted quite the villain, we worry about the generation of children. But that is a Mexican sovereign question. How would you address that?

Mr. Flores: Who are the ones who teach in Mexico? Who are the scholars? Who are the ones who have the prestige in Mexico right now?

The ones living in the United States, the ones who come here to make lectures, the ones who speak here with Americans. I will conclude with this. If the Americans can interact in our society, let us not talk about intervention or no intervention. Let us leave that to diplomacy and the United Nations.

Mrs. Baer: I would be very interested in hearing what Mr. Barros would have to say about this question of education as a security issue. And Mexican primary school education as potentially creating a hostile climate for bilateral relations and perhaps something ultimately even more serious.

Mr. Barros: Again, you go back to history and the Mexican textbooks. On the question of history, and on questions of the relations with the U.S., they seem to fit.

Regardless of the official view of Mexican history, I would disagree with Mr. Cintron on that. Those textbooks do diminish the chance of improving our relations. And I would also disagree with him that they are always bad textbooks. When he mentioned that, I think he missed the point. Why were they created? Why did the Mexican Government establish a textbook? Because at the time — this was several decades ago, three decades ago — not many people had the means to buy books.

And even our trade and industry was not as large, and it did not have the national presence to be able to provide books for all schools. And we had a very important jump, a demographic jump in the late 1950s,

and even in the 1960s, by which there were many more children requiring primary education than in the previous years.

So, we had to face this, first in the schools, and then of course, in the books to study, so that is why it seemed to be correct on the part of the Mexican Government to produce a textbook that would be very cheap, which, of course, is distributed free to the schools.

Guest: I think we are referring to content.

Mr. Barros: Yes, so I would not really say, having read the books (I do not know if any of you have done so), that there are many things in there, which would move against friendly relations with the U.S.

Mr. Flores: I think it is important for your initial statement to build up an actual agenda, a personal agenda on how to build up again the international security system of the U.S. and of all the Latin American countries.

When Mexico fought against the exclusion of Cuba, there were those who felt it was killing the international system. So, we know now to take things in a new way because some American insists on using power. Excessive power, excessive diplomatic force killed that system and it is no longer useful. Who cares about the Organization of American States — it is just a whole bunch of bureaucrats. Nobody cares about that, you need to build up a new OAS system with all the historical parts that we just had.

Mrs. Baer: I agree. I think that the U.S. would far prefer to have family take care of itself, rather than often to be in this parental role using excessive force. Were other members of the family to assume part of the responsibility, rather than assume part of the problem, then perhaps the U.S. would not so often be in this difficult position.

Mr. Kendall: I think the U.S. is so big that it has a leadership role by default whether it wants it or not. For so long, we in the United States and, to a large extent, most of the Western European countries too, would not take a leadership role. It is especially evident at the top levels of our government, our academic leaders, and our media. It is a constant argument. They are almost ashamed to admit if they know any more what our institutions are and whether they are worth defending. The other part is that at governmental levels they are making moral

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equivalency judgments, including our intelligence agencies, about how the Soviets or other Marxists think. That is just stupid, and some of it is naive.

It helps cause a lot of our own problems, and I think we should be trying for mutual respect rather than trying to be loved first. It is very nice. We are next-door neighbors and most of us have friends in Mexico and you have friends in the U.S. I do not think that is the problem, but we should be going for mutual respect on things that make sense to both of us.

David Martin: There are several thoughts that come to mind.

First of all, with all due respect, you suggested the possibility of swapping nonalignment for nonintervention. I do not consider that a swap. I think you are not making a concession when you opt for nonalignment; you are defending your own interest.

Mr. Berruga: Of course, both ways.

Mr. Martin: Second, let me come back to the metaphor of the family, which has figured so obviously in the recent discussions. I think that Mexico, as one of the older and bigger siblings, has a special role to play here that cannot be played by the U.S. acting as the father or mother figure.

I think in your own interest, it should be possible for Mexico to give some kind of leadership, perhaps not everything that we would like to see it do, but some of the things that we would like to see it do. We cannot push too hard, obviously.

It depends on the degree of understanding, the degree of good will, and the degree of intelligent self-interest that can be mobilized in Mexico.

And a third thought that comes to mind is that the phenomenon of *perestroika* and where we are going in the field of international Marxist ideology is the answer. There is such a thing as Marxist ideology; it still exists, but it is badly tattered and it is wearing down by the month.

There was a phenomenally interesting article in *The New York Times*, roughly two weeks ago, about recent developments in China. The article said that one of the tough Chinese economists and four of his colleagues were, apparently with official encouragement, working on

a book that said that a truly productive society can only be created on the basis of private initiative and private ownership.

This is the top of the initiative in China. I think that the Soviet Union, in order to compete with China, is going to have to open up more than it has. I think that you are going to see more *perestroika*, and I think you are going to see the Castro wing of international Marxism on the ropes. It will not be able to fight back, given the colossal failures of socialism in the Soviet Union and Red China.

This seems to create an opportunity, which our friends in Mexico should be prepared to take advantage of. In short, they should view these things not in subservience to the U.S., or because the U.S. wants it but for its own self-interest, taking advantage of the opportunities as they arise, and there will be plenty of them over the coming period.

Mr. Guardabassi: Shortly after the discussion on education, it came to mind that we should be talking about the media as another resource of education. It plays a very important role in our country and wherever there is a free press or even where there is not a free press, in influencing people's thoughts or ideas or perceptions, how things are or how they are not.

In influencing people, through either television or the written word, it is the responsibility of the media, I believe, not only to report the news but to try to engender good feelings between people, particularly if it comes to influencing the outcome of, let us say, this conference.

They can report on, for example, what has been said between the participants in the conference. I think the feeling from the people around this table is to try to bring about an understanding and an accommodation of views. If there is somebody in this room who represents the media who has his own particular ax to grind and wants either to show one point of view or another, I think they have done a great disservice to what we are here for.

I think we are here to talk about mutual defense, mutual security, and if we have people in the media, written and visual, who are trying to hurt us in our efforts to bring about a solution to problems that are mutual problems, then they should be chastised somehow. I do not know how you do it, because I have not found a way yet.

This is something we should think about when we are talking about education because it is so important in how young people, any people,

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form their opinions, whether it be about Americans' opinions of Mexicans or Mexicans' opinions of Americans.

Mrs. Baer: I am impressed by the amount of time that we are spending discussing the cultural or the soft end of security questions. And I am actually rather surprised at the rather smaller amount of time that we are discussing hard interests and hard security questions.

I just throw that out as a comment. And I would ask that some of you direct some of your comments toward trying to bring us to some sense of where the agenda is heading.

I guess my comment here is that 70 percent of our agenda seems to be cultural and perceptual and —

Mr. Washburn: And ideological. The difference is ideological. I think it is because there is no perceived identity of security interests, frankly. And what we have heard is a position on ideological and cultural differences that seem insurmountable.

Mrs. Baer: In the U.S., perhaps, we are aware of the historical problems here, and I think we are aware of this. I envision it as a long scar, a gash upon our mutual psyches. Perhaps the U.S. is asking how can we move forward? We would like to move forward and we somehow do not seem to be able to move forward, even after sitting down and saying, yes, we understand. Where do we go from here?

We still do not seem to be able to move forward. For example, I would mention a little incident that symbolizes a lot of this. When I was present at the inauguration of President Salinas, and he was acknowledging all the visiting heads of state who were present at the inauguration, when he came to the name of Fidel Castro, the entire assembly broke into fervent applause.

And a friend of mine later on said, "You know, the reason behind that applause, they were not applauding Castro per se, they were applauding him because he kicks you and it makes us feel good."

We are asking for a truce. We are asking for a way of moving beyond this psychological warfare that we have been embroiled in now for a century.

Mr. Berruga: I think the media role is crucial. It is the most persuasive means that we have. Everything that is a problem, the perceptions about it are very difficult. To start to open up the oyster is very difficult.



WORKING GROUP ON MEXICAN DEBT

January 27, 1989

Moderator

Jorge Salaverry, Policy Analyst for Latin American affairs, The Heritage Foundation.

Panelists

Adolfo Aguilar Zinser, Associate Professor, School of International Service, American University, Washington, D.C.

David Asman, editor of the Americas column, *The Wall Street Journal*.

Juan Cintron, President, Grupo Cintron, Morelos, Mexico.

John Despres, staff member, U.S. Senate Intelligence Committee.

Leonardo Ffrench, Minister of Press and Public Affairs, Mexican Embassy, Washington, D.C.

Jonas Flores Carillo, President, National Political Association, Mexico City.

Peter Huessy, President of PRH & Company, Washington, D.C..

Charles Kovacs, Vice President and Manager of International Financing Programs for Chase Manhattan Bank, Washington, D.C..

Rogelio Montemayor, President of the Programming, Budget and Public Account Commission for Mexico's House of Representatives.

Luis Pazos, Chief Executive, Latin American Integration Institute and Research Center for Free Enterprise, Mexico City.

Sol Sanders, journalist specializing in Latin American affairs.

Sergio Sarmiento, Editor-in-Chief, Spanish Language Publications, Encyclopedia Britannica Publishers, Inc., Mexico City.

Samuel Taylor, Chief Representative in Mexico, U.S. Agency for International Development.

Working Group on Mexican Debt

Mr. Salaverry: We all know that Mexico has a foreign debt of about \$105 billion, that Mexico spends about 5 to 6 percent of its GNP to service that debt, that in 1982 Mexican foreign debt was about \$8 billion, and that in the seven years that have passed since then, the foreign debt has increased about \$25 billion.

I would like Mr. Rogelio Montemayor to tell us how he sees the issue of the debt from the Mexican point of view, and then we will have another opinion as to how the debt issue is seen.

Dr. Rogelio Montemayor: There are two or three points that I would like to mention. The first has to do with the causes of the problem. You may say that it is not relevant now to look at how the debt crisis arose. But I would say that it is important for two reasons. First, it supports what I would call a shared solution, and second, it explains the internal reasons so as to avoid this kind of problem in the future.

As I mentioned yesterday, what I am saying reflects my personal views. The debt problem is due in part to spending, but also there is the problem of the adjustment made in the U.S. economy that carried to the international economy, increasing real rates, which made the problem worse.

For the past six years, several countries, Mexican and international multilateral agencies, banks, and the creditor governments have been searching for a solution, and the solution has been so far to extend payment periods, rescheduling and so on. But it is clear such a solution will not take us very far.

There is a problem because the debtor economies have been doing very poorly in terms of economic growth, in terms of controlling inflation. The adjustment that these economies have made has varied. Some, like Mexico, have made a real effort to adjust the economy, to open up the external sectors, and to reduce the fiscal budget. Other countries have not made an equal effort. But even in those countries that have made an effort, it is clear that you cannot rely on those types

of solutions that have been tried so far to get a permanent solution. And there are two risks.

One, the structural measures will be reversed because of growing pressure in the debtor countries because they do not see what this adjustment will mean in terms of increasing standards of living and other things that the people in these countries can see so that they will keep on paying the costs. The other solution has to do with political stability or instability if you keep on with this type of solution.

David Asman: When I first came on the scene investigating these areas as a journalist in 1983, there was still an open mind on the part of the banking and investment community in New York with regard to overall Mexican debt and whether a solution was possible by refunding Mexico with fresh funds in the same fashion that had occurred from the mid-1970s until the mid-1980s. At this point, it is a completely new ball game for the investment community, not just the banks, but other investors who are looking at Mexico, too.

The biggest move, of course, that indicates this change was the decision to increase the loan loss reserve at Citibank, which was followed almost immediately by the other major banks that had exposure in Mexico. This was seen by many as an indication that the earlier policies were mistaken; and quite frankly, there was a difference of opinion.

The large block grant loans — anywhere from 50 to 80 percent of which went directly to the Mexican government rather than being targeted specifically to private investment projects in Mexico — were seen as having been a mistake. The comment by Walt Wriston that companies go bankrupt, but countries do not, was seen as incorrect, that in fact, Mexico as an investment — the Mexican government as an investment — was a mistake. It was a mistake to have made that investment.

That is not to say that Citibank and other bank have given up on Mexico as a place to invest their funds. It is just to say that they are no longer going to be doing business in the same fashion.

Mexico should not look to the banks themselves as the place to receive relief. Maybe there will be temporary relief along the way, and there will certainly be short-term loans made to specific projects in Mexico that the banks view as worthwhile.

For example, I was just in Monterrey in September, and there were plenty of individual projects that got started specifically because of the lowering of the import tariffs in a whole range of companies. Vitro (a large glass company in Monterrey), for example — you probably know about this — has just formed an arrangement with Whirlpool — this is just a specific example — to bring in washing machines, which Vitro was not able to do before because of import tariffs. Now, since the tariffs have been lowered, a new line of washing machines affordable to the average Mexican is being conceived. They are not into the marketing stage yet, but that will come along; and this investment project has received funding from banks in the U.S.

This type of project, which is in fact encouraged by the banking community and to which private individual investors in the United States might contribute, will, of course, help the Mexican economy, and it will create jobs. It will, in this particular instance, make the life of the average Mexican who had to do laundry by hand much easier. It will improve the quality of life for the Mexican people.

Peter Huessy: Perhaps you might be interested in a perspective of how I see Congress, how it views this problem, and how, in turn, it reflects some of the concerns of the U.S. public, some concerns that I share.

The first question that comes up on resolving the debt problem is: What did you [Mexico] do with the money you borrowed? I say that in all candor. Many members of Congress have not the foggiest idea what you did with the money.

Second, they ask a question that notes Mexico is not an oil importer. It is an oil exporter. It would be instructive to look at countries like South Korea. During the same period, Korea has paid the highest real interest for loans of any country because of the peculiar nature of the Korean financial system. It is also an oil importer. A hundred percent of their oil is imported. I want to get back to that.

Third, members of Congress say we accept more immigrants from Mexico legally than from any other country. In fact, you get a part of its quota that Canada does not use.

Fourth, we accept more illegal immigrants from Mexico than from any other country. Whether that is good or bad is not the question. The fact is that many members of Congress and the public feel that we are helping you out, when people come to this country, work, and send

money back to Mexico. Some people call this an unofficial channel of foreign aid.

My own study that I did for the administration of the Food and Agricultural Organization on the World Bank's agriculture policies examined what happens to World Bank money that is sent to Mexico and FAO. One of the concerns in Mexico has been the food import bill, which I know is onerous. Another is that the enormous bureaucratic structures that are erected over almost every project concern members of Congress because they do not see any move by the government in the direction of eliminating them. The last issue that comes to members' minds, also my particular interest, is population growth. I spent a good deal of time in the 1970s fighting for immigration legislation that was finally passed, but I can remember hearing one Mexican diplomat after another deny in the most strenuous words that Mexico had any population problem whatsoever.

Now, leaving that aside, I think it is instructive to go back and look where South Korea was, for example, in 1972 and compare that to Mexico in 1972 (gross domestic product per capita, growth rate in the economy, population growth, birth rate) and see how South Korea adopted incentives and disincentives to encourage people to have smaller families, something Singapore did that same year. They predated China's effort in this area by nearly a decade. Korea has now cut its birth rate to two children per couple from over four, and it has done so in about a decade with the support of the church (there is a sizable Christian community there, including the Catholic Church), of business, and of its people. Korea has been remarkably successful in doing this.

Now look at another country in contrast to Korea, Egypt. Egypt and South Korea were basically on a par in almost everything in 1964, food production per capita, oil production per capita, oil import needs, across the board. It is ironic, the various similarities. And then you look at where they are now, the two countries. One has gone off a cliff, and the other has gone in the opposite direction.

The point I am making is that members of Congress say, well, look, South Korea imports oil. It does not export oil. It has a very onerous debt problem since it pays very high interest rates. Yet, it seems to have done some things internally that were necessary to improve its economy. They did it on their own. In fact, if anything, there was

hostility on the part of previous American administrations to do anything about population growth except put people of childbearing age on contraceptives, which we euphemistically call "family planning."

Fundamentally, one of the roadblocks in resolving this debt problem, not only in Mexico, but in Brazil and other countries, is that members of Congress are going to have a role. These are the roadblocks you have in front of you in dealing with this issue.

Ricardo Villa-Escalera: I speak as a businessman and a member of the opposition, but I will try to be very objective.

Our debt now is \$107 billion, as you say, and the service on the debt this year is \$15 billion. Now, obviously, the Salinas government is hard pressed for resources. I feel that we need to invest at least \$30 billion to \$35 billion in our economy every year in order to grow, and we do not seem to have that money. So, the government is trying to lower the service of the debt from 5 percent of GNP to about 2 percent of GNP.

Two percent of GNP is about \$3.6 billion. Last year we paid about \$9 billion, and as I say, this year we have to pay \$15 billion. Now I understand Mr. Pedro Aspe, Mexican Secretary of Finance, has come to Washington and has talked to the World Bank. And he has proposed a program of an additional \$42 billion for Mexico during a six-year period. That is about \$7 billion extra per year.

Now, are the international community and the U.S. government in a position to trust Mexican economic plans for the next six years in order to make a new package of more money with which to pay old money and at the same time give us enough fresh resources to grow at a rate of 4, 5, or perhaps even 6 percent toward the end of the six years?

I think that the international community is opposed to giving Mexico another chance, least of all for six years. We in the private sector wonder, obviously, where this money is going to go. They have told me that Mexico is the only country of the 159 countries in the world that has squandered \$200 billion in the last ten years and that we are worse off today than we were before. Of that, obviously, \$100 billion corresponds to the debt and the rest to oil income from exports.

Well, we all know that oil exports have dropped and in Mexico they have dropped from \$16 billion a year to \$10 billion, to \$8 billion. And this year I think it is \$6 billion worth of oil exports. Therefore, we are pressed.

And of course, we have had capital flight that has been incredible. Lopez Portillo got loans with the one hand, and we were shipping dollars out of the country with the other hand. So, everybody knows we have \$60 billion in the U.S. and other places around the world.

Now, our reserves have gone down. If the economic policy of this era gets into trouble for any reason, we might have more capital flight. For instance, the peso is devaluing now at a rate that is very, very small – at one point, 3 percent per month. This can cause problems in the following months. And then we might have a run on the Mexican peso and then more problems for the administration.

So, in a few words, what are we going to do and who is going to give us the time and the money to reduce our debt service to 2 percent of GNP? I think that is an objective and common sense attitude. We certainly need the extra resources to grow, and I feel it is going to be rather difficult to convince people throughout the world and in the U.S. to give us the space to maneuver.

Mr. Salaverry: There are several questions here that probably should be put more into context. It seems that everybody agrees that there is a heavy burden on Mexico and many developing nations to repay debt, to service the debt.

Now, it is almost a given in many circles here in town that there should be some sort of debt relief because Mexico is paying 5 to 6 percent, using 6 percent of its GDP. This is a heavy burden. They say they do not have any left over to reinvest for growth.

I would put a question here and see if someone would like to address this. Say that Mexico gets some form of debt relief. That means that, given the premise that Mexico would then have money for growth, the question is who decides how Mexico would use that money and in what type of project: increasing spending or investing in productive projects or what? There is a point here that, if we accept the need for further debt relief so that Mexico can use those resources that are being freed by debt relief in investment, how can Mexico as soon as possible guarantee that it will invest rather than increase spending?

Dr. Montemayor: If you will allow me, I will answer first the question that Peter Huessy mentioned. The first one says what do you do with the money, and then he made the comparison with South Korea which has no oil exports. These two I will try to answer together.

A great part of the money that was borrowed in those years went to investments in the oil sector. If you look at that just as a business decision, you will say it was a bad decision because at that time the price of oil was \$30 per barrel and the predictions, including the official U.S. prediction, was that by this time the price of oil would be something around \$40 or \$50 per barrel. Obviously, that was not the case.

One of the reasons that the Mexican debt is a problem is precisely because of the oil exports. Since the price of oil has come down so substantially, it means that the goods that we produce and export are buying less and less. That means we have to make greater internal efforts to buy the same amount of expendable goods, whereas the economists say our terms of trade have deteriorated very much in the past years.

Yesterday I mentioned a figure from the recent past. If you look at it in terms of trade, or from the point of view of fiscal deficit, or from the point of view of the net transfers of foreign capital, it gives you the same picture. We have transferred or made an adjustment equivalent to 12 to 13 percent of GDP which amounts to two and a half times the amount of U.S. help under the Marshall Plan. So, that gives you an idea of the problem.

As to your other two questions – this certainly is not a topic at this table – about the legal and illegal immigrants into the United States, I just want to mention we have to look into that. Not here, of course. But the question that I would raise is who is helping whom. And I think, as we move close to reality, it will be clear that this is a mutual help. Certainly the U.S. economy needs that labor. Otherwise, you would have trouble with employers themselves fighting the matter.

Population growth: We have done a remarkable job in population growth in just a few years, because we brought down the population rate from 3.6-3.7 percent nearly to something below 2 percent in about a decade.

Another question: how will Mexico use the money? That is very difficult to answer in just a few minutes, but I think that the problem is the choice of resources for the whole economy. There are not enough resources. You would be making a great effort to transfer money from the general economy to the internal sector to pay for these things.

If you had some relief from that, that would let you ease the strain on internal resources, which is what they call simple reinforcement

effect. We now have a vicious cycle. That will mean that we could lower our internal rates which are very high, too, and we will have more money for growth in all sectors.

But I would say that Mexico, because of the lack of investment in the recent past, has many sectors that need resources to sustain a growing economy. The infrastructure needs lots of resources.

Mr. Salaverry: So, would Mexico accept some conditions on debt relief regarding how it would use the resources that are not being used to service the debt?

Mr. Montemayor: I do not think I can speak for the Mexican government. I will give you my opinion.

I do not think there is anything in the world that does not have conditions. That is something that will have to be worked out in negotiations.

Adolfo Aguilar Zinser: It seems to me to get \$40 billion from the banks of the U.S. today or a commitment for \$40 billion in the next six years is going to be at least as hard as getting a reduction on \$40 billion, on the current debt, and certainly more exhausting in time, more devastating in terms of the resources and the energies involved in negotiations, which would probably not lead to \$40 billion, but to \$4 billion tied to all kinds of conditions, with the banks giving it with great reluctance.

Moving back to the technical world, my question would be to the American participants on this round table: Suppose that instead of asking for \$40 billion, Mexico says we do not need any more money at this point. We are not requesting any new credits at this point. We are presenting you with a plan to reduce Mexico's debt in an amount that will bring down the interest payments to \$3 billion or \$4 billion a year.

I deliberately do not detail what would be the technical conditions. I think they are possible. I think there are many ways to do that. I think there would be cautions on how it could be done, but suppose it happens. Obviously, there are all of these questions. What are you going to do with the relief money and all of the questions of what you did with the previous money that we gave you and how are you going to manage your economy, who is going to benefit from this, so on and so forth.

But suppose that we leave all of those questions precisely to the negotiations and the Mexicans that are here at this table ask you what the consequences would be if that was a firm position to start with. Then they say, we do not want to do it unilaterally, but we want to do it and we want you to respond to this. What would be the consequences for Mexico? There is a lot of talk that Mexico would be shut out of the credit market, that its exports would suffer. What, at this point, would be the consequences for Mexico to do something like that? What do the Americans see as the cost?

Mr. Salaverry: If I understand you correctly, you are saying that Mexico does not need additional money, but that it needs only a reduction?

Mr. Aguilar: Mexico assumes that it is not asking at this point for any money. It is not putting new credits in the package. Mexico will probably negotiate new credits as part of the overall arrangement, but they are not in the package.

Mr. Aspe is still offering us \$40 billion. He offers to reduce the debt \$40 billion. What would be the consequences of this?

Mr. Montemayor: I would like to ask a question relating to that one so they can both be answered at the same time.

Just for the sake of the discussion, let us assume that the solution is some sort of debt relief. What will be the mechanism for doing this?

Ken Crosby: He is getting to the guts of the question which, frankly, is totally impractical. It is totally hypothetical. You are dealing with two different groups.

If I understood what you were saying, instead of asking for an extra \$42 billion in loans, just ask for a reduction of that much. When you are asking for \$42 billion in loans, you are working with government agencies or quasi-government agencies. You are working with a particular single group, say, the World Bank. That group may, in turn, have to work with other banks, but you are working with a single group, whereas, when you are asking for a reduction, you have got all the banks involved. Which bank is going to give up what part and how are you going to get the banks to agree to that reduction?

It is so hypothetical, and I think you are getting to the point now as to what the possible mechanism would be. In other words, it is so hypothetical I do not see a possible mechanism for it to happen. It is a good theoretical question, but until you get to the guts of how it could possibly work and what the mechanism would be, it is too hypothetical.

Mr. Aguilar: It might not be too hypothetical that Mexico will arrive at that position at some point. That might not be hypothetical. Mexico will say it has to work the details out, but the position has to be that. I see that possibility, and from our end it might not be that hypothetical.

Sol Sanders: I would like to ask what I think is a more fundamental question. And unless we get some answer to this, I do not see how any of this exercise makes much sense.

Eighteen months ago Mexico had the largest reserves in her history. For more than a year now, if we are to believe what the government says, there have been very effective price controls. Although there has not been growth, there has been a reduction of inflation and probably far more stability than many of us imagined was possible; yet those reserves have been run down by \$10 billion.

This seems to me to prove a point that all of us have made from the beginning of the crisis, and I am sure there is nobody sitting at this table who has not said it to himself or said it publicly, and that is that every dollar that leaves New York for Mexico has a rubber band on it unless there is a return of confidence. I would like to ask the private sector representatives here what is necessary to restore confidence.

Mr. Aguilar: Let me make the point that our questions have been answered with questions. We would like to have a little more comment.

Mr. Salaverry: He offered a hypothetical scenario that could actually happen. I do not see that it cannot be a possibility — the Mexican government coming to Washington and saying, “Hey, we cannot pay and we need a debt relief of \$40 billion.” It is possible.

Then Mr. Montemayor says: Okay, what would be the mechanism? The mechanism is, I understand, who will pay for that cost, which Mr. Ken Crosby has asked.

Sergio Sarmiento: Even a Mexican can respond to that. I as a Mexican now answer for the American banks: Of course not. I am not going to

give away \$40 billion. You would not do it if you were a business. What guarantee are you giving me that you will not waste an additional \$40 billion? What I want to know is, what are you going to do in your country to make it grow?

President Salinas has been saying that the debt will not be paid unless the country grows. We all agree that the country has to grow. What we want to know is what are you going to do, (1) to make the country grow; (2) to repatriate capital of Mexicans that is stashed abroad; and (3) just to reestablish confidence? That is what I would want to know as a banker. You do not have to be an American.

Mr. Aguilar: That means you are saying, let us enter into a negotiation in which we would like reassurance.

Mr. Sarmiento: That is not negotiation. You do not want to pay me back my \$40 billion. That is not negotiation. You are threatening me not to pay back my \$40 billion.

Mr. Crosby: What you are saying is, that is a repudiation of the debt, and that puts a whole different complexion on it.

Mr. Aguilar: I am not saying a repudiation. I am saying, is there a possibility of negotiating a debt relief in which the banks absorb the cost because they want to see the Mexican economy moving again. They want ways to do business again with Mexico, or not do business again with Mexico. But a third party, which is ultimately going to be the government of the U.S., with the very great involvement of the Congress of the U.S., is going to say, this kind of solution has to be worked out. Somebody has to pay a little bit.

Mr. Sarmiento: But things do not work out this way. As the government of the U.S., you cannot go to the banks and tell them, okay, you write off \$3 billion of your loan. You can do that in Mexico because the government is so powerful. The U.S. government cannot go to Citibank and tell them, okay, why do you not write off \$3 billion and we will reach an agreement with the Mexican government. The Mexican government will be good from now on. That is not the way things operate.

Mr. Salaverry: I do not see that your question has been answered with a question, because confidence (as Sergio Sarmiento brought it in) is

also an issue. The question is good because reducing \$40 billion in debt implies our consideration. What are you going to do with your economy?

Another matter is, what you are going to do to restore confidence so that those \$50 billion to \$80 billion that are overseas will return to Mexico to improve the economy?

So, it is not answering a question with a question. It is something that is part of the whole issue, and that is part of the mechanism. What would be the mechanism?

Luis Pazos: Could it be possible that the debt could have some relief from the market price and that some banks make deals with private enterprise in Mexico? They released half of the debt with Montezuma. That is a big company. It could happen. But I think this is not the solution. It could help for a while.

I think we are looking for one solution. One solution could be to release part of the debt. The government's solution is give more money to pay the debt. My solution is that the government should open the foreign investments to get enough money to release or to pay the foreign debt.

We have to see the foreign debt not as an independent problem, but we have to see the whole economy. It is a big problem because we have a weak economy. If we open the door to a foreign investment, we can change debt for investment, but if the government is not allowed to make this change and wants only to solve the problem for one year, we are not going to go anywhere. They are only biding time with more money. For what? For growth. That has been the excuse for many years.

We need money. We need reserves. Why do we not try to get the reserves to the Mexican money? There is a lot of Mexican money outside of Mexico. If we have confidence inside, you will have security, and if we open the doors to foreign investment, we do not have the foreign debt problems anymore.

Why? Taiwan has \$50 billion and they do not know what to do with that money. What is the difference with the Mexican government?

Mr Montemayor: I am looking for a mechanism for translating what the secondary markets of LDC debt tells you about confidence.

Mr. Sarmiento: I think that question can be answered. You can come up with a mechanism. But before any bank, whether it be a private bank or even a multilateral bank, would agree with any kind of mechanism, a bank would want to know what it is you people are going to do in Mexico to make things work.

I mean, you do have \$50 billion, \$60 billion, \$70 billion in assets abroad. You do have money. Mexicans do have money. What are you going to do?

Then, if you think that you can do something with your economy, I will be willing to write off 30 percent of my debt or money that I have lent to you, but if there is any evidence that I am not going to lose the rest of the money that I have there, I am not going to have to inject new money into your economy.

Javier Livas: I am not an economist. My background is in law, and I would like to touch on some legal aspects of the debt that have to do with the things that have been mentioned here, specifically the confidence issue.

Let us say that Mexico is not a sovereign nation, but just a business entity, since this is the way it has been treated in the agreements to refinance the debt. You know, Mexico has subjected itself to the tribunals of New York and all that. In the paper they are called the UEMs, the Mexican United States, which is the official name for the Republic of Mexico in its constitution.

If we look at Mexico as a business, then the management is not accountable to the stockholders. It is as simple as that. We as citizens have no control of what goes on in Congress. You must know—and Mr. Montemayor here as a Congressman can tell you—that the specific instruments, the agreements, were kept top secret from the Mexican Congressmen, not just from the people, no, even from the Mexican Congressmen.

There were pleas from Congressmen across the spectrum of the PRI asking to see what the Mexican authorities were signing, and they never got a contract. The contracts had to be obtained through some subterranean means because our embassies and our Congressmen did not have the information. So, the executive in Mexico is not accountable even to the Congress; even to its own PRI Congressmen, it is not accountable.

When are we going to get the confidence? When the corporation runs like a corporation and follows the statutes and we have some representation, which means true Congressmen. The Mexican executive is accountable to no one.

If you want to ask what happened to \$200,000 or \$50 billion or whatever you call it, it was spent. Much of it was spent. Yes, it was spent. On what? Well, there are many things. There are investments, investments that were good. Some were, as Rogelio said, to produce oil from the underground, but some hundreds of millions of dollars in other projects are unused.

We have had 40 electrical locomotives sitting in San Luis Potosi for six years, and we do not have one kilometer of electrical lines in the country. What has been done about those forty locomotives? Worth one million dollars each? Nothing. They just sit there not sold, not used, nothing. It is just total waste. Thus a lot of the money has gone to waste — entropy. Things rot, they collapse.

If I were the manager of this enterprise, I would say, let us look at the balance sheet. We are broke. Why? Because you are broke when the cash stops flowing, not when you make a bad business decision. You do not go broke immediately. No. It is when the people who lend you money stop lending or your own resource-generating capacity comes to a stop. That is just what happened.

Luis Pazos was saying yesterday the 1989 budget is enormous because of the internal debt. Forget about the external debt. We can laugh about that. The internal debt. The only reason that the government thinks that things do not match is because they do not plan to repay the internal debt, they do not have money enough to pay it.

If I were the manager, then what would I say? Here on the balance sheet we are broke. The cash flow is collapsing because the banks, our friends, the Americans and the Europeans, are not going to give us \$42 billion for the next six years.

What do I have to resort to? Only potential energy. The hidden resources of Mexico, perhaps the investments of Mexicans abroad, yes, and the internal natural resources of Mexico, of course. But there you come to the point — is Mexico, the government, going to allow somebody else to manage? Are you going to bring foreign help to help you manage the enterprise?

This is where the problem gets stuck. The Mexican government is thinking that foreign investment should not come, and least of all indiscriminately, and perhaps that is okay. But you come into an enormous bureaucracy, and the thing is that perhaps if you are IBM, after a lot of hassle, perhaps some more leaders here and there, you will get 100 percent.

And how about Apple Computer? It is out of the country. Why? Because they did not get into agreement.

Here we have a foreign investment law that is applied the same way they applied the city-by-laws, where there are any, where the policeman says no parking. You can park depending if you get an agreement with me. It is the same thing. It is a structural invariance.

Mr. Crosby: What Luis touched on is the total situation of the debt equity swap and the encouragement of privatization of industry. It has been tested. The concept has worked in such countries.

What is the attitude of the government of Mexico in accepting and permitting debt equity swaps at tremendous discounts? It puts its pride behind it and says, there are organizations that are willing to pay 50 cents on the dollar to buy our debt from the banks. That gets the banks out of the problem if we will permit them to come in here and buy state industries and run them.

That is a solution and a concept that is beginning to work, and Sam Taylor has been on the fringe of it. What is the hope of that as a mechanism, Sam? You have been involved in that area.

Samuel Taylor: A number of people have attended a number of seminars and a number of people – the gentlemen who handled privatization for Mrs. Thatcher have paid visits to Mexico. A number of Mexicans at a very high level, people from Mr. Aspe's office, and others have attended a number of these discussions. There have been private and voluntary organizations that have bought substantial amounts of debt and put it back into projects that range from pollution to social development projects to new farming practices.

Another idea that has been discussed along this line and creative ideas that came out of the Mexicans that were looking at it. (I am going to make up this company.) Monsanto says I would like to go into a half a billion dollar petrochemical. Monsanto says, okay, I will buy whatever, \$250 million in return for half a billion in pesos which I am

going to need to put this plant and equipment and other things together. Then Monsanto would take responsibility for \$250 million or \$2 billion or whatever it is to pay that part of the debt. They are buying part of the debt, which they would service and which Mexico reduces.

There are all kinds of industries out there that might be good prospects to do this, not the ones that you normally think about, such as an excellent charcoal plant over on the east coast and many of the sugar industries. I think there is a whole range of possibilities.

Again, a lot of these ideas were Mexican ideas. They were thinking creatively about what they can do and when they can do it and with whom. And I think it has a lot of possibilities. It is a question of a mechanism or structure to accommodate this. Who can take advantage of those sorts of things?

Mr. Cintron: Speaking for the private sector in Mexico, or at least my private sector, I would like to focus on the following. You have just hit on one word. No solution is going to be found to this problem until we take the emotional out of it, the emotion on the bankers' or the creditors' side in the sense that they must come around to realize that the investment that they made, which at the time that they made it looked like a good investment, has turned bad. And it has turned bad basically because of two things.

One, certain assumptions of the projects are no longer valid. Your example, the price of oil. I remember when they were talking not of \$40 or \$50. We were going to have \$80 a barrel of oil in Mexico by this time. That was wrong, and that was no one's fault. It just happened.

Second, it went bad because some of the cash flow from those investments was not properly used. And we as Mexicans have got to understand that. We made some mistakes in using that money. We stole it. We shoved it out of the country or we misspent it, as in the case of the locomotives. We did not convert that into a productive investment, and that was Mexico's fault.

Once we can both agree to that and get that behind us as an emotional issue, then we can go to the next step and get our pride out of the way, as you mentioned. Then we come to implementing a solution, and the solution has to be based on at least two things.

One, that the creditors take a hit. You are going to have to lose some money. There is no doubt about it. Whether you like it or not, whether

we like it or not. I, as a businessman, have so much pride that I like to think that I always fulfill my commitments. I like to have that star next to my name or next to my corporation's name. But if sometime I do not, I am going to live with the fact the rest of my life, that I did not meet a given commitment. I have got a black mark. The creditors have to say, we made a bad investment in Mexico, and we paid for it to a certain extent.

And the debtors, in this case Mexico, have to come around to something that I have not heard yet from the official side of Mexico. And it probably will not come around until all of us around this table are dead and a new group of people are facing the issue because of this pride problem and this emotion problem, and that what was done over the last twenty or so years was not right. It simply was not right. That is why we have a problem. If it were right, we would not be around here talking about this. Something went wrong, and we have to swallow our pride and also be willing to say, from the Mexican point of view, that we did something wrong. And if we insist on continuing along those lines, it is not going to get any better.

That then brings us back to this whole issue of confidence. I think that it is wrong to say — and someone already has said it here — that we do not have the resources in Mexico. But we do have those resources and a lot more. Right now, with a lack of confidence and with all the problems that we have, we have an economy that is the fourteenth largest economy in the world. Let us get all of us in Mexico on the same wavelength, loosen the creativity of the individuals and turn that economy not into a \$100 billion or \$200 billion economy, but a \$500 billion or \$600 billion, and we will laugh, as someone has said, about this foreign debt problem.

Mr. Cintron: We both have to swallow the pill. We have got to change at both ends. If we go for another twenty years trying to make it work, we are going to be in worse trouble.

Jim Landberg: To build on what you are saying, it is pretty clear there is no single solution like privatization or foreign investment or just writing it off or bringing down the debt. It is going to have to be a fairly comprehensive solution in which everybody pays part of the cost and suffers part of the pain.

It is pretty clear that to restore growth requires resources and policies, the right kind of growth policies. It seems to me that if the Mexican government were to come in and say it needed a break of \$40 billion over the next six years, it would get total silence unless it also said: "Here's what I'm planning to do to use those resources, here's the policies I'm going to adopt to make sure they are used productively for growth so that ultimately I can resume paying the service on the debt." If it comes in with a comprehensive proposal that is sound and makes sense, I think there will be some sympathy from the banks in which case the mechanism can be found. It is not a mechanical problem. There are all kinds of mechanisms.

The government has to come in with something that makes sense. My personal feeling is that slight adjustments of policy are not at all going to be adequate to deal with this catastrophic problem. What we are talking about, it seems to me, are major changes in policy, that is, changing the foreign investment law, not saying that you are not welcome to invest. You change the law. You give the banks back to the private sector. There is no reason why the banks should be in the hands of the government. There is every reason why they should not be. And you really privatize. If you really do those things, I think that you would get a very strong, positive response from the creditors.

Charles Kovacs: We have more than a passing interest in the subject. I just want to make a couple of points on this idea. Why not go for broke? Why should Mexico not have a \$500 billion economy, instead of just \$200 billion. Those of you who were here this morning probably heard me suggest that kind of approach is not such a bad idea, as Mexico has immense potential and immense capabilities that must be unleashed; then the problem will take care of itself. The financial problem is only a relatively small one compared to the problems of structural reform and political modernization.

If you had a situation where you had the kind of mentality that you wanted to go for a \$500 billion economy, I think the financial problem would solve itself. In October 1985 Korea had about a \$45 billion to \$50 billion debt, and they were still in an IMF program. A couple of years earlier they came quite close to rescheduling. They did not reschedule and they went through all kinds of instabilities. You had the

Korean War. You had a number of coups, assassinations. If there is a country that has had a difficult modern history, it is Korea.

But through the right economic policies, today it is a country that is a modern industrial power. It is a threat to certain American industries, even fairly sophisticated ones, and it is a country that is prepaying its debt, but that is because its per capita income has gone from \$100 per capita in 1953 to something like \$3,500 today. Now they are prepaying \$7 billion or \$8 billion of bank debt.

This is a very different approach from the other which says, we have to forgive this debt, or reduce it, or do something of that sort. The important challenge today for both the borrowers and the creditors is that, if they are convinced that they are going to modernize and they are going to grow, they must somehow avoid an irretrievable break. The trick is we have had six years of reschedulings; a lot of people say this is muddling through. The fact is it was not done for altruistic reasons on either side. It was done because of certain expectations about the future.

The important thing is to maintain those communications, maintain those relations as long as it is in the interest of both sides, which I would argue it is, and then it will make it much easier to deal with the future developments of the modernization process, as that process takes off. If those relations are not maintained, the long-term consequences — and by long-term, it starts biting you in two or three years — are very bad, quite apart from the strategic implications.

If I would suggest anything, it is simply that we should build on those successes of the past six years, and there are successes, as both sides will testify, and that somehow we continue to work together, all of the creditors, not just the banks, toward an amelioration and resolution of the exercise.

Jonas Flores Carillo: If we, PRI — and I am hoping we will — remain in power until the year 2000, maybe after 2000, you will have the chance to arrange the debt business in the way you are thinking, not before. Let me tell you this from the bottom of my heart. The Mexican president does not have that time. He is going to deal with just what is going on. That is my feeling. Thinking that the Mexican government is going to sell Telefonos de Mexico, Petroleums Mexicanos — how to sell those kinds of business interests?

Guest: Sell it to your own people.

Mr. Flores: Well, that is the problem. Our own people represent for us — outsiders, oil people. We do not think Escalera is our own. He is a Mexican, but he represents foreign investment. We do not think the very wealthy people represent our own people. That is a problem. It is not my problem. By the way, I am a Christian. I am an educated person, but people from the middle class down do not think that way.

So, finally, please, friends of Mexico, Americans, bankers, creditors, think of this. Go to Mexico. Take a Gallup poll. You will find out that we are very ready to start fighting. And the debtors, if they do not go kindly, softly, intelligently, will become the force of the people. I mean, not the government, but the people.

Mr. Sarmiento: I want to address Mr. Montemayor's request for a mechanism, and I am going to make it very simple. You wanted to know whether there were any mechanisms that would be conducive to a writeoff of the debt. The answer is very simple. It can be done if you make it into a good business proposition. If you entice the bankers, if you make the writeoff something that will eventually pay for itself through a debt equity swap or whatever, then the banks will be glad to do it.

What you cannot do is you cannot go to the bank and say, just write it off; I am not going to give anything in exchange. Everybody knows the debt is unpayable. Some kind of an arrangement will have to come forth. Just make it a good business proposition for the banks. It is just very simple.

Dr. Montemayor: It seems to me that we are discussing different labels of timings, of ideas, of emotions. It is not that easy to do. We are dealing with a problem that is not new, something over which the Mexican government has been dealing with the bankers for over six years.

Over the past years Mexico has done a great job in adjustment of internal problems. I think nobody in Mexico denies that part of the problem was caused by bad economic policy, and that has been changing. But these changes do not happen one day to the other. It is like the case you have here with the savings and loan associations that is going to take time to solve. Maybe now you know the answer, but it is not

something you can do right away because of the interlinkages of things. It is the same in Mexico.

Mr. Villa-Escalera: I would like to review with you the menu of different propositions. I feel they are valid.

First of all, the swaps. Why does the Mexican government not want us to go into the swap business? They say that the economy is overheating. We had about \$300 million or \$400 million worth of swaps per month for many months already in line. And all of a sudden, the swaps were suspended.

The second point is the secondary market. I understand that banks do not like the secondary market because it cheapens the debt, and they are obviously not going to sell \$1 at a price of 50 cents. Only very marginal loans of very small banks could be bought at the secondary market price.

Third, the bonds backed by the United States Treasury. I would like to hear a bit more about those, what happened, why we were not able to handle more than \$1,000 million in the special bonds that have the backing of the U.S. government. And they were, of course, due in twenty years' time.

Another very important point: I have been an exporter, one of the largest in textiles, in Mexico for twenty years. We are exporting \$1,000 million a month of manufactured goods, in spite of the fact that we have a very small quota to the U.S. and many barriers.

Is it possible to figure out, not only for the U.S., but also perhaps for Canada and Europe, how we could be given some sort of a release in manufactured exports so that we can pay the debt? Instead of exporting, let us say, \$12,000 million worth of manufactured goods, we could go up to perhaps \$20,000 million.

Foreign investments: Spain got about \$18 billion in the last two years of investment capital. Mexico should say foreign investment will have a holiday for at least a year. You can come in and get all your companies launched even at 100 percent of capital owned by foreigners, and we might be able to get perhaps \$4 billion, \$6 billion, or \$7 billion if you feel that our economy is worth investing in.

Then if we go into the details, can we pay interest toward capital? We have paid \$55 billion worth of interest in the last six years. Can that be applied to capital payments? Is there any way that we could swap

interest for capital? Or could we pay half in interest and half toward real capital? I think that is very important.

Another thing is the type of interest rate. When Lopez Portillo started, the interest rate was 6 percent. Then it went to 21 percent under Paul Volcker's policy in 1981. Our service of the debt went from \$2,000 million to \$6,000 million, and that is in Lopez Portillo's memoirs that I have read carefully.

Therefore, can the bankers give us a normal type of interest like 6 or 7 percent, instead of playing around with the prime rate and the legal rate in London? As you know, every point is \$500 million extra more for Mexico for a year.

So then, as far as confidence goes, it is all politics to me. If we have a real, clean political game in Mexico, among other things, then confidence will return to society at large, and we might be able to repatriate some capital. That will help, of course, in the development process in Mexico.

As far as the banks being privatized, I think that is a dream. There are a great many taboos, ideologies, revolutionary theories. Unfortunately, movements like this will not be able to be part of the Mexican political scenario. I am sorry, but that is the case.

Mr. John Despres: Is that true of foreign investment policy being changed too?

Mr. Villa-Escalera: Well, they say every sexennial that they are going to change the foreign investment law, and they never do. They are afraid that the country eventually will be run by foreigners, which I think is a mistake, but that is the way it is. The Mexicans have another idea, not like the Europeans or even like you or the Japanese, about foreign investment. It is going to take a long time for that idea to be changed.

Mr. Pazos: Well, I agree with Rogelio that it is not easy to make a change in a short time. The president said that 1989 will be a transition year. The problem is that many Mexicans do not see beyond this transition year; they cannot envision the change we are going to see. There are political reasons why the government does not say publicly what it is going to plan to do. I understand that political reason. But at the same time, that silence about what the government is going to do makes us feel that there is not going to be a big change. And we are

afraid that after they solve the problem, they will stop making the changes.

I recognize that they are making changes and now, at least, they are talking about privatization, and they have privatized some companies. Three years ago nobody talked about that in Mexico. Under Lopez Portillo, everybody talked about nationalization of more companies. We are better now, and it looks as if we are going a better way.

But it is not enough for the problem we have now. We need more radical decisions, and it is not because I am radical. It is because the problem is so big that, if the government makes a little privatization and promises to privatize another company, that does not have any effect on the people.

Mr. Livas: I think we can look at this problem of Mexico more as a systemic crisis. It is the whole thing. It is not just the hands and the feet that are going wild; it is the brain. The government does not work.

It has been recognized here by Rogelio, for example, that we see the mistakes the government has made. It is the same people who changed the constitution in 1983 so that the government could have specific areas for handling the economy. These same people are now saying that they are going to adopt precisely a 180-degree turn going the other way.

If your manager does not work, you fire him. You do not expect that, if he goes and repents, he is going to be very good. He just bankrupts the company. The philosophy here is saying, we recognize our mistakes, but give us another chance and we will put everything in shape.

The people in Mexico are saying, I do not believe you because the same was said before under Echeverria, and the same was said when Echeverria gave his power to Lopez Portillo; and I remember very clearly the beginning of the sexennial of Miguel de la Madrid. They just changed the constitution to institutionalize exactly what they said they are going against at the end of the sexennial.

How can you understand that? It does not make any sense. People do not trust this government, and I bet that not 10 percent of the people voted for the Salinas administration in general.

Mr. Kovacs: No banker really expects this problem to be solved in six years or anything like that. The existing Mexican sovereign debt has a tender of twenty years. The grace period is six to eight years. So, it

means that through 1995 nobody is going to see any principal paid. We are looking at a very long time frame.

It is not a question of whether the banks will be repaid their debt any time in the next decade. It is a question of whether the existing debt will be serviced. In other words, you pay interest on what you have borrowed, and if so, how much, and if not, how much less than what it is today. It has been coming down, of course, every year since 1982.

The point is, if you do that, how do you maintain relations between the financial community and the country and the borrower because there is a lot more on the table here than just a sovereign debt in terms of this large block of long-term debt. There is a very large amount of trade finance, all kinds of trade lines involved, as well as the interbank lines of the Mexican banks. If you lose those, which of course is what happens when relations are severed, they do tend to disappear, however slowly and without coordination by the banks, as we have seen in Peru. Then the problems of the country get fairly severe.

It is as though you and I lost all of our credit cards and our checking account, but we still have money because we are still being paid in cash. But if you and I try to live without a checking account or without credit cards, it would be impossible. Even if you had lots of money, it would be very pleasant but it would certainly very cumbersome and tedious, and that is the minimum impact. The desire to avoid that kind of situation is one of the factors that has been driving banks in borrowing countries to go along with this very tedious and sometimes tenuous process of annual reschedulings.

The second point is that this is not a U.S. problem or a U.S. responsibility. American banks have roughly one-third of the total outstanding Mexican debt. The other two-thirds is held by the Japanese, the Canadians, and the Europeans with minor amounts held by the Arab banks and even a few South American countries. But the U.S. does not have a controlling share of this business by any means.

Even though the U.S. government has traditionally played a large role in Mexican financial affairs, as you saw in 1986, this role has tended to diminish because of the changing balance of economic power with European Community and Japan. This process is, in fact, accelerating because of the diminution of the Cold War; so the national security issues that allowed us primacy in economic affairs are now less important.

This less developed country debt issue is simply one of I-don't-know-how-many others on the Group of Seven agenda, and that means that these discussions really ought to be also taking place in Europe and in Japan.

The final point is that the solution, I think all of us would agree, is certainly more investment and more money.

Mr. Salaverry: Precisely. The economic growth of Mexico has been linked, especially in the last few months, to debt relief. I would address this question to Mr. Montemayor. How much do you relate economic growth to foreign investment? Do you think that changing the foreign investment law that exists at the present time in Mexico would be good for economic growth in Mexico? Do you think it needs some radical change in order to encourage the kind of foreign investment that would accelerate economic growth?

Dr. Montemayor: We need economic growth through what we call the net transfer of resources. The net transfer of resources is the result of many things: new credits, the debt service, foreign investment, and all sorts of capital movements. We need to reduce those transfers so that there are enough current resources to finance a given rate of growth.

Regarding the law, it has been modified substantially over the last few years. I really do not understand this pressing on the law. Two years ago there was about \$1 billion-something in projects already authorized, which would not go into Mexico and have been, therefore, waiting more than six months after the authorization came out.

I would like to stress it again. The foreign investment in business is a supply and demand phenomenon. When there is a demand, when there is a possibility of doing good business, it will come. We will have no trouble.

Mr. Asman: I have a chance to get feedback from U.S. investors that I am sure you do not get. Actually it is supply-side economics, to which I know Carlos Salinas is a new convert, so he might understand this and appreciate it. What these U.S. investors say is that they are looking for you to supply the opportunity first; that is to say, there are a lot of investors in the U.S. who are looking at Mexico right now. Some of them are represented by such bankers as Chase or Citibank. Drexel

Burnham is involved in a lot of potential projects, investment projects, arranging joint ventures.

The problem is they are scared. They are nervous; they want a sign. They want something specific. If you want capital, there is capital in the U.S. that wants to go. Some of it might even be Mexican flight capital. But it is there. They want to send it to Mexico, but they are nervous. They want a sign. They want something specific from the Mexican government, a change in the investment law, specifically, and then other things will carry along.

Dr. Montemayor: Yes, but let us not fool ourselves. Foreign investment goes for one reason: because of the chance to make money off the investment.

Mr. Asman: They want to keep the money. They want to be sure they can keep the money.

Dr. Montemayor: So far Mexico has never done anything against foreign investment. We only nationalized oil, but we paid for that.

Mr. Huessy: But you have a hostility to foreign investment. It is in your rhetoric, your speeches, your political parties, and your newspapers. Whenever anyone goes to work in Mexico, he has to get the government to approve so much that it is very burdensome. That is what people are asking for. If you compare foreign investment with Taiwan or Korea or Spain, if you take the laws and put them side by side, no objective person will say that Mexico is on the plus side of the ledger in terms of liberal foreign investment laws. We are not saying that in an accusatory way, but that is what inhibits capital going into your country.

Dr. Montemayor: But let me tell you something. Once Mexico has moved into a more open economy, many areas that were desirable for foreign investment will have ceased to be so. You see all this *maquiladora* business growing and they do not have any problem.

Mr. Sarmiento: But why is it growing?

Dr. Montemayor: Because we have an advantage in labor costs, and we no longer have an advantage in other things that came from protection. That is the reason.

Mr. Sarmiento: Because there are no restrictions too. I mean, that is very important. My company just invested in a new company in Spain. We got 100 percent ownership. No problems whatsoever, but we would be afraid to open up a new company in Mexico because it means that we would have to share the ownership with someone else and might not agree with this person all the time. I think the 49 percent rule has damaged Mexico so much that it is amazing.

Dr. Montemayor: I do not agree, because most of the time – before this opening of the Mexican economy, at least in the last six or seven years – you would have a standing authorized foreign investment that would not come in even though it was already authorized. They have gone through all the paperwork, and yet stay there, waiting.

Mr. Sarmiento: It is because you have to go through all the paperwork. You start your paperwork two years in advance, and then you start this business. I have been involved with opening up companies in Mexico. This is the way you operate. You take your two years to do the paperwork. Then, you start. You go through your lawyers. You try to decide whether it is worth it or not. Usually by the end, you just do not want to risk it, because even if you get the authorization, you can see what doing business in Mexico is like.

For a big company, it is fairly easy. IBM can negotiate with the Mexican government, but a small company cannot. Really, it cannot.

Dr. Montemayor: Then how do you explain the *maquiladora* phenomenon?

Mr. Sarmiento: Because restrictions have been lifted. You can own a *maquiladora* outright. You do not have the same kinds of restrictions in imports and exports and price controls. That is why *maquiladoras* are booming. They are, as somebody said yesterday, Mexico's special free trade zones. We are actually experimenting with capitalism in our borders, and it is working.

Leonardo Ffrench: Let us not look at the problem as emotionally as we are right now. You say that the *maquiladoras* are growing because there is a lack of restrictions. At the same time the restrictions for the *maquiladoras* come from the U.S., and several Congressmen and

staffers of Congressmen have come to us to ask us, "Please do not allow Japanese capitalists to come and work in the Mexican *maquiladoras*, remain just as underdeveloped as you are because it is also in our interest, political, ideological or whatever." They are not asking us not to allow, let us say, Soviets or Hungarians or whatever to invest in Mexico. They are asking us not to allow Japanese and Koreans to invest.

Mr. Asman: Give their names to *The Wall Street Journal*, and we will publish it on the front page. We will embarrass them.

Mr. Ffrench: The only ones that they are allowing are based in California like Nissan. According to one article by some futurologist or forecaster, it was stated that Mexico was probably going to be used at that very special moment as sort of a springboard for Japanese products coming to the U.S., just when the U.S. is complaining about the trade deficit.

Mr. Salaverry: You are talking about the special interests that kept the free market from working.

Mr. Sarmiento: There are restrictions all over the world, it is as simple as that. Investment goes where the restrictions will be less harmful. I agree: Everybody makes restrictions. There are restrictions in the States. There are restrictions in Canada. There are restrictions in South Korea. In Taiwan I have had serious problems with copyright law, for example. There are all kinds of restrictions all over the world.

The *maquiladora* phenomenon is interesting because the level of restrictions is lower. Even when you put together the American restrictions and the Mexican restrictions, still you can do business more profitably on the Mexican side of the border than you can in another place.

Let me say something else here. I think everybody has been ganging up on Rogelio Montemayor, and I want to say something on his behalf. The government has done many good things over the past six years, which I think are really helping the economy. I think there is liberalization. I am very pleased that the government is doing this. All I am doing is urging Mexico to continue on the same path because I think the path chosen in 1983 is the correct path for Mexico.

Mr. Flores: It is not going to be possible to change the foreign investment law because it requires amendment of the constitution, which is locked.

Mr. Salaverry: In other words, do you think that it is needed but impossible?

Mr. Flores: At this time, I think it is going to be difficult, but it is possible.

Mr. Huessy: That sends a signal to a lot of people that you are moving in the right direction.

Mr. Ffrench: Let me tell you that the ruling on those positions toward the legislation, toward the law, are already being introduced. The law as such is very difficult to change. You would need 66 percent of the vote of the Congress. But the regulations regarding that legislation are being designed and practically enforced, as has even been published by the *Journal of Commerce*, and certainly by *The Wall Street Journal* itself. However, there is a message, and the rules of the game will be just as clear as possible so that once there are rules, people will know.

Mr. Kovacs: In regard to the investment question, there is a basic issue here because the question is whether a country, any country, wants to attract investment or not. It does not matter whether it has lots of debts, whether it has domestic investment or foreign investment. But, basically, do you want private money, and foreign money in particular, or not?

Now, what is happening today is that most countries are being very careful and very serious in attracting investment — Poland, Hungary, China, even Russia. They are all passing new investment codes that allow 100 percent foreign ownership. China had, of course, according to the *Financial Times*, something like 3,700 new companies, joint ventures, coming in, of which 200 or 300 were 100 percent foreign owned.

In the 1990s, there is going to be a capital shortage because there is a large demand for investment. You have got Russians coming in and Chinese. You have the electronic revolution here. You have got European Community in 1992, the U.S. in 1991, all of these different

issues in the developed world and the globalization of the OECD economies which will drive all kinds of issues.

In that kind of a race, a race for capital, many countries are going to be left behind – namely, the ones that really have a lot of doubts about foreign capital. That may be right. It is a sovereign decision that countries can well decide for themselves.

But, to think in the year 1989 that a country does a favor to investors by allowing them to come in is a miscalculation because countries can control investors. Singapore is wall-to-wall multinationals, and Singapore's sovereignty has not been diminished one iota by the presence of all those Japanese and American and European companies. You know, corporations tend to be very good corporate citizens, and they tend to be much more careful, if anything, about being on good terms with the government than do local companies.

So, it is up to the host countries. It is not for us to tell them. But if host countries decide that foreign investment is not a threat, then they have got to go a step beyond that and do whatever it takes to attract it. I do not mean tax holidays and stuff, because those are not very attractive, but just in terms of a welcoming environment instead of an attitude that says, "keep out – or come in only very carefully."

Mr. Salaverry: Rogelio Montemayor says the law cannot be changed because it is really difficult. So, do you think that the law really prevents foreign investment?

Mr. Kovacs: I do not want to get involved in domestic issues, but I can tell you from my discussions with corporations – and I have done some academic work on foreign investment decisions and that sort of thing – that, if companies cannot own a majority of the enterprise, that is a major deterrent. I do not care if it is in England or in Germany or in Mexico, but if they cannot have 51 percent ownership and control, a great many investors will be deterred.

What will compensate for that sometimes is making funny little arrangements that, in fact, allow *de facto* control or allow such a high return that you put up with the danger that comes from not being in the majority control. Yes, all those things are there, but as a general rule, the inability to have majority control, or even the difficulties encountered in achieving it, will turn off a lot of companies right off the bat. They will say, "Okay, that's it."

Mr. Sarmiento: We started out the conversation with the question of mechanisms, and I think we can go back to mechanisms again. Mr. Ffrench said — and he is right — that changing the constitution is going to be very difficult, because even if the PRI wants to amend the constitution to change the foreign investment law, it will not be able to do it without the support of one of the two major opposition blocks. Maybe the PAN will support it, but it is very likely that the labor sector from the PRI will defect from the PRI in that crucial vote.

Mr. Ffrench has made a very important point. There is one way to go about it. There is no regulatory code in foreign investment, and that is where a change can be made. He made that point to me about a day or two ago, and I thought it was a very good point. That is the mechanism. That is something that can be done to make the situation more palatable to the foreign investors. Without foreign investment coming into the country, this debt situation cannot be solved.

Mr. Despres: In the case of the debt, there is an opportunity I think for both sides to shift the basis of our communications from one of adversarial proceedings to a recognition of mutual interest in the new growth. That is, Mexico has undergone a very painful and prolonged structural adjustment in the course of the last five or six years. No net growth, really; reduction of real wages on the order of 40 percent or 50 percent; cuts in the current account budget deficit on the order of over 9 percent of GDP, which is equivalent to three Gramm-Rudmans in five years, which is in relative terms several-fold what we have accomplished; an opening of the economy; accession to GATT. Things that even three years ago were unthinkable have already been accomplished.

Now we have a new administration. It is one of those situations that happens really quite rarely in our history, at most every twelve years and usually not even then, when we have new presidents in both capitals who are ready to take a fresh start — in this case to look on the debt as not just a burden, a divisive issue between us, but as an opportunity to alleviate the burden and get the issue back to where it belongs. That is something that can and should be waning in our relationship because no one believes that the debt can be serviced well without growth.

Everyone recognizes that is the key. Growth is in the interest of both countries. It affects problems from potentially excessive immigration

and the economic incentives that are associated with the proliferation of drug production and trafficking. A lot of the problems in our relationship derive from the stagnation of the Mexican economy.

In fact, there are sacrifices that have been made, losses that have been taken on both sides, and risks that have been assumed. I had the pleasure of arriving in Mexico just two weeks ago on the very morning that the president took a very big risk, doing something that really has not been fully appreciated — only *The Wall Street Journal* really has given it the sort of attention it deserves — in taking on what was regarded widely as untouchable, the center of power and corruption in Mexico. It was widely believed that this was too dangerous to take on.

He is taking risks, and I think investors are now beginning to recognize that there are risks worth taking in Mexico, notwithstanding the foreign investment law: the simplification of regulations and their publication; the enforcement of accountability on bureaucrats that the current administration clearly intends to pursue; eliminating the office in the Ministry of Finance that is responsible for handing out tax incentives; firing the official who has been handing them out; the sort of discretionary administration that is subject to corruption and that creates uncertainty; going after tax evaders; planning in due course to reduce rates by raising the amount of revenue gathered through more systematic and uniform collection.

Mr. Villa-Escalera: On the swap issue, what does our government have to say?

Mr. Livas: I also have a question. I would like to know if the representative of the Mexican embassy or perhaps Mr. Montemayor knows what is the actual figure of the Mexican reserve. How much money does Mexico have right now?

Mr. Ffrench: According to the last statement that was made a couple of months ago, I believe it was around \$10 billion. So, I wonder if these new figures are only speculation.

Mr. Sarmiento: The last official figure was the one that was published on August 31, and it was about \$10 billion. The Bank of Mexico has not released any figures since then. We are waiting for the third quarter figures.

Mr. Villa-Escalera: The question is, do we work in a piecemeal approach, or do we need a completely different proposal on the side of the Mexican government? In other words, addressing our banker here, can we work through the secondary market? Can we work through the bonds coupon zero? Can we work through foreign investment, exports and everything? I have mentioned the *maquila* program and swaps between interest and capital.

In other words, can we add up enough breathing space for the Mexican economy up to, let us say, \$10 billion per year, in order to make the whole situation workable? Or do we have to ask for more time to repay part of the debt or go to more drastic measures? Because I do feel that if we add up six, seven, or eight points, there might be a possibility for everybody to lose, but not so much, that is, to make a small sacrifice. Even the Mexican government, of course, could try to accommodate the swaps into the economy so that we will not create inflationary pressures.

If the approach is that this piecemeal situation is not good enough, then we will have to change the whole attitude. Then everybody will be in a worse position because we would tend to be more radical and try to be more even. The whole situation would become more politicized in both ways. I am just asking whether you think that we could approach the situation of Mexico in a practical way or whether we will have to deal with a completely different approach.

Mr. Kovacs: First of all, I do not think we are going to solve it. This debt was built up over almost a decade. What we are talking about here is a process and a relationship. Even if there were some miracle and all of a sudden either you had a lot of money or the banks decided to forgive everything so there is no more debt, I do not think that would really be something that either side would like.

One of the good things about the 1970s was that a group of countries, which until then had no access to the world capital market, suddenly had that access and were able to borrow lots of money so that South America and a number of other countries actually graduated from concessional assistance from the World Bank. They were able to become part of the international financial world. That was a group of about thirty or forty countries.

When the economic situation turned in 1982, with some of those external variables becoming adverse, what happened was that the Asian countries managed to cope with those changes and have out-grown LDC status. They have become industrialized powers. The Latin American countries and the African countries have not done that well. The question is, has that become a permanent problem or is it something we can still work out?

The fact that we are still talking means that neither side has declared the situation hopeless. In the countries where it is hopeless, they have gone into negotiations. There are probably ten or fifteen countries where, without anybody openly declaring it, both sides have seen that this is pretty bad and there is no point in further discussions, and there will be no payments of any kind, even interest. That is the overall picture. Now, Mexico has to go step by step and bit by bit. You need \$10 billion per annum. That means no interest payments to anybody.

Mr. Villa-Escalera: Whether we could get income or capital coming into Mexico, now we say that about \$1 billion has come into the country because of our high real interest rates that nobody has mentioned. For instance, we are in a position to give Americans about 16 percent return to the dollar and guarantee the dollar back. At this very moment, if you give us money and you deposit that money in Mexican banks and other places, I feel that, if we add up all of these programs, we will not in any way be renegotiating the debt. The debt will not need to be renegotiated. We would have enough extra resources to manage it ourselves. I think that is the idea, not to try a great all-or-nothing situation in order to build up a piecemeal approach.

On the other hand, as this gentleman said, our country has not grown in six years. The situation is that, even though we have been servicing the debt, the situation at this very moment is critical. Everybody knows that. The people have lowered their standard of living 40 percent and we need to do something.

My idea is whether, through different programs, we can add up enough money every year on a consistent basis so that we can avoid the confrontation that is coming, something that could be a real political confrontation. That is what we are trying to avoid.

Mr. Kovacs: The *International Finance Paper* report said that, if a country undertakes significant structural reforms and if this is done in

a considered fashion in accordance with all of the creditors, not just the commercial banks, then there is a possibility of multiyear commitment by the banks, among others.

If you get to that point, then that meets the request that there has to be some kind of assurance that reforms are met with sufficient funds so that you have sustained growth. In theory it is possible, but whether a country would be willing to undertake that degree of reform is a political decision.

Mr. Pazos: In Mexico we have a feeling that the debt has already been renegotiated. Sometimes the newspaper says that everything is okay with the foreign debt, and sometimes we have the feeling that nobody is doing enough. I would like to know from the Americans. What do you hear here?

Mr. Kovacs: It was renegotiated in 1986, and most of it was given twenty-year terms, a very long grace period. There is really not much to negotiate in the sense that there are payments coming due which have been renegotiated as they were in previous years.

At this point, the question is whether the government feels it needs more money one way or the other. There have been a lot of rumors floating around. You had the \$3.5 billion bridge finance back a few months ago, which is due to expire fairly soon. The question is not that the debt has to be renegotiated. It is a question of what sort of policies will the Mexican government wish to follow and how it wants to see the international community interact with those policies.

At this point, we have had no approaches. I do not think any bank has been negotiating. The advisory committee has not been negotiating that I am aware of. I am sure there are always discussions with Treasury, and I know, as a matter of public record, that Mexican government officials are abroad talking to various finance ministers from time to time.

The issue is pretty much a question of either you can reach for a discount or you can reach for the market, but you cannot do both except in a very, very minimal way. You can play games. You can have smokescreens. You can always do some debt reduction because of the large variety of lenders.

Basically countries have to decide whatever suits them, that they either want to go back to the 1970s in a good way where they are

borrowing and they are part of the system or they are not going to have access to the marketplace and they are going to live without it. The question is whether you can do that in an orderly manner so that relations are still maintained and at least some trade lines go forward.

It is easy for somebody who lays out, "You do this, that, or the other thing," but it is a very tough choice for the rescheduling countries. The only thing I can say is that the banks and the financial community are certainly prepared to be flexible in support of countries that are performing or want to perform, but it is not our key. It is yours.

Mr. Pazos: In Mexico the news says that more or less we are ready and cannot just delay the base of the principal for 1989 to other years. But we are going to pay only the interest this year.

Mr. Kovacs: That is all you have paid for the last six years.

Mr. Pazos: There is nothing new for a negotiation yet on the table.

Mr. Kovacs: Ask the government.

Mr. Pazos: The government does not make it clear. That is why I asked you. In Mexico they do not say anything clearly. They only try to give the signal that it has already done business.

Mr. Sarmiento: The government has said it is seeking \$7 billion to \$8 billion in fresh funds.

Mr. Kovacs: That is not renegotiation. That is new money. The thing is, sitting here not even speaking Spanish, I cannot respond to what is in a newspaper in Mexico. I can tell you a lot of the stuff that is written in the American newspapers. It is pretty inaccurate. This is a very technical and complicated subject, and if you want to know what goes on, you really have to get into it. It is difficult because so much of the reporting is bad. It is not necessarily ideological or evil. It is just that it is a complex issue, and economic reporting is bad in most countries.

Most journalists are not economists, and the editors certainly are not. I have been in situations where I have made a speech someplace and someone takes a paragraph out of it, and it is a mess afterwards because it was a crucial paragraph. They were not being malicious. They just needed to cut two inches off the bottom of the page. Sorry, but I just cannot respond to that.

Mr. Salaverry: Thank all of you for being here with us. Hopefully the actions that will be taken will be in the best interests of Mexico and the U.S.



**WORKING GROUP
ON U.S.-MEXICO
TRADE**

January 27, 1989

Moderator

Edward L. Hudgins, Director, The Heritage Foundation Center for International Economic Growth.

Panelists

Donald Abelson, Office of the U.S. Trade Representative.

Brian Brisson, U.S. Department of Commerce.

Charles Kendall, President, International Business Consulting, Hazertown, Pennsylvania.

Brian Lopina, Director of Government Relations, Citizens for a Sound Economy, Washington, D.C..

Brian Marshall, U.S.-Mexico Chamber of Commerce, Washington, D.C.

Raul Ortega, Mexican Business Council for International Affairs (CEMAI), Washington, D.C.

Working Group on U.S.-Mexico Trade

Dr. Hudgins: The first issue for our panelists is U.S.-Mexican bilateral trade. What is to be expected in the future? What new areas will we be dealing with under the framework agreement?

What sectors are right for trade liberalization? What areas are very sticky areas where we may run into some difficulties on either side? Again, Americans have trade protection just like other countries, perhaps not as bad, but nevertheless there are trade complaints Mexicans have against America that are probably valid as well.

The other issue is, of course, the U.S.-Mexico free trade area. Many people in Washington, supporters of free trade, have looked at the U.S.-Canadian free trade area. This included candidate Reagan, by the way, in 1980, who advocated a North American free trade area and said: we have got Canada, now let us turn to Mexico, the Caribbean, Central America, and let us have a free trade zone all the way from the Arctic Circle to Tierra del Fuego.

My opinion is that this is the direction we should move in. However, for political reasons as well as some economic reasons it will probably be slow in coming, and therefore we should be careful about pushing the Mexican government on this particular matter.

American trade policy in the last couple of years, in part because of Congress, and not so much because what President Reagan would have wanted, has tended to be aggressive in a bad sense of the word.

We single out a foreign country. We take some particular issue that may or may not be a real large component of protectionism, but we make it a high visibility issue and we say we are going to crack down on you unless you do something about this particular matter; and then even if the country does it then we have a number of other issues that we say, now it is this thing that we are going to complain about.

There is a whole problem of pushing the Mexicans too quickly, because as I say they traditionally have been more protectionist than we have, that creates the problem of the backlash down there. Those

are just some observations that I have about the current situation, and I think at this point perhaps I would open it up to some comments or observations on what are the important issues, and then perhaps what do you think about them, from some of you. Does anybody want to start of? The U.S. Trade Representative's office, maybe?

Donald Abelson: The first important fact is that the document that you referred to is a framework of understanding. It is often misunderstood. Some people think of it as an agreement, and it is not. It is an understanding that says, we will talk rather than fight.

It is nothing similar to the free trade area agreement we signed with Canada. It is nothing similar to the customs union, the Treaty of Rome, that the Europeans have. That is a very important first point, because it is often misunderstood.

Under that framework of understanding we currently have groups that discuss. That was the idea. We have had discussions. We have solved problems in steel, textiles and alcoholic beverages, so those issues are behind us. Or, rather they have been discussed.

And we have groups that talk about investment issues, intellectual property issues, trade in goods, i.e. electronics and automotive, and in services: motor carrier issues, insurance issues, and I may have forgotten some others. That is the current structure.

Brian Marshall: Can you describe how those actual discussions are carried out, the structure of those discussions?

Mr. Abelson: I can start by saying nothing has happened in nine months, absolutely nothing since July, since the Mexican election. that election and then certification of the election, and then the American election, then the Mexican inauguration and the American inauguration, — all these events have made it impossible to get together at the working level to discuss specific issues.

These working groups are chaired. There are chairpersons on both sides, and members of both governments, although I am sure that the Mexican chairpersons will all change. All of the people who worked there are not in the government any more. On our side there are no changes. Everyone is still around. Each group sets its own agenda and they set their own schedule, and it is really for each group to decide how it wants to resolve the issues.

Formally, the framework of understanding has a high-level plenary group. That group has met twice and has not met since June. So those are the facts. Issues that will come up: investment, intellectual property rights, services, steel, textiles, auto, petrochemicals.

Dr. Hudgins: When steel and textiles come up again will they be handled by separate working groups set up, or will they probably fall in just sort of a general trading group, or working group?

Mr. Abelson: I cannot tell you. All of the steel arrangements come up for renegotiation in September, and I am sure that the White House will want to have a handle on that. In textiles, the arrangement is good until 1991.

Raul Ortega: Have you set a date for the meetings this year?

Mr. Abelson: We have not met, period.

Mr. Ortega: You do not have any communications at all?

Mr. Abelson: It is starting just now.

Dr. Hudgins: For what issues right now, in light of the meetings in the first half of last year, do you think we have a chance of some breakthroughs? I would imagine agriculture. Now, I think we should make clear that the rule will be, if anyone wants something off the record, just say this is off the record. As for me, anything I say is on the record, and I hope it gets banner headlines.

Barbara Bowie: There are a lot of specific bilateral agricultural issues that would require some attention, whether or not we had a framework of understanding and whether or not anything is going to happen multilaterally. Certainly, a lot of the things that took up a lot of the discussion in the first round under the framework of understanding were longstanding problems, and we spent a lot of hours on them.

Mr. Ortega: I would like to ask for a comment on the intellectual property rights issue, especially on the American side. That could be, maybe the most important issue in terms of the effects of the new trade law in the United States. Has anything been done so far as these working groups are concerned?

Mr. Abelson: I look at the intellectual property rights issue, as being one of the most relevant issues, because proper protection of intellectual property rights creates the environment for investment. Even if you were to eliminate the equity proscriptions or the performance requirements for the other investment concerns, you do not have adequate protection for intellectual property. Companies are not going to invest, they are not going to transfer technology, they are not going to produce because of the tremendous fear of losses.

Security is what business needs and, therefore, intellectual property protection is key as, of course, is freedom for investment for American companies or any foreign companies to invest. Obviously all the investment issues are linked to the discussion we are having downstairs on debt in the political context here. The trade bill says that by June the U.S. Trade Representative has to come up with a list of priority countries that we will initiate special 301 proceedings against.

Mr. Ortega: Is Mexico on that list?

Mr. Abelson: That is in June. We are only in January. There is no such list. The procedures to develop the list are huge. From January to May we will collect information from May to June on every country and from May to June decide what is on our priority list: June to December we will negotiate. After December 1989 we will institute findings.

Charles Kendall: I have worked with a couple of the big trade associations, the pharmaceutical manufacturers, Petroleum Institute, in years past. Most of the work I did in Mexico was with the larger companies.

In recent years I have been working with smaller technology base companies, and most of them are the suppliers to automotive electronics, a variety of machine tool related companies — the sort of thing Raul Ortega and I are trying to work with on a couple of things. These are the types of concerns we have.

Years ago, for my type of products, it was just a matter of finding out who sat on the import license committees and waiting your turn because sooner or later you would get the license. In our case it was a matter of getting that trial, and really we did not have to. I think I only

bought one prospective customer a new Mercedes at Woolworth's, and that was it.

First, we are trying to get U.S. businessmen to consolidate an international relationship. They do not have the patience, they do not have the knowledge. And when we finally get them on this side of the border, getting trade financing is nearly impossible in terms of a World Bank project for otherwise stable companies. That is another problem that I am trying to get addressed, not from the taxpayers' standpoint, but why are the regional bankers out of it. And I think I know.

But what is the situation? One of the questions here is, what is the situation in Mexico now? What is the situation for medium-sized businessmen there when they want to finance something?

The second part is, is there any chance at all that Salinas may denationalize the banks? That would go a long way to help the medium sized businessmen put money back in their country.

Mr. Ortega: As far as I can say, I think Salinas understands the critical situation and the need to make real changes. I would like to see those kinds of changes. I would love to see the banks come back into the private sector because I think that kind of bold measure would prove to the whole business community that he is serious about making reforms. But I do not expect that to happen, unfortunately.

Mr. Brian Lopina: It seems to me that the lead players have been and will be in the future the government of Mexico and the U.S. administration. As far as what is going to happen in the future, the U.S. Congress is nonetheless going to have a role in this whole thing, and it seems like right now we have got a number of positive developments. We have the kind of a honeymoon period after the U.S.-Canada agreement. We have growing trade with Mexico. We have a growing success story with the *maquiladoras* yet, interestingly, as far as legislation proposed in the U.S. Congress, we have hardly anyone getting up front to do positive encouraging things. I would ask anybody here, if you were advising the leaders in Congress right now what the most positive and politically feasible thing would be, what legislation could they pass right now to encourage more trade?

Mr. Abelson: In fact, a head-on clash can be very successful to show the need for resolution. That is strategy. Maybe what the Congress

should do is act very protectionist. There is nothing better for negotiating than a Congress that is acting obstreperous – as long as they do not really do anything.

Mr. Lopina: That is not quite the answer I was looking for, but let me just toss out a couple of suggestions. One would be some sort of legislation that would encourage more protectionism, and the second is some sort of coproduction zone or area along the border or maybe just in certain sectors.

Dr. Hudgins: Could you give me a few more details about what you have in mind for a co-production sort of thing? Either a joint venture or what exactly?

Mr. Lopina: A joint venture could be sold as a win/win proposition, job creation on both sides of the border. That is what I am looking at.

Dr. Hudgins: What would legislation have to do with that? Would we say, if a joint venture is established in Mexico, a 50/50 deal, we will give certain kinds of tariff breaks to imports or what?

Mr. Lopina: Maybe some regulatory breaks.

Dr. Hudgins: I am very open to those such things. I have not seen any good strategies about how you go about doing that, in part, because the Mexican situation is so different and so difficult, in that they are very reluctant to go along with anything other than a 49 percent ownership. Actually, they have been making a lot of exceptions in the last couple of years. They have liberalized, but nothing that I think we could work with on a systematic basis.

Mr. Abelson: This is not going to answer your question. An underlying problem is dealing with U.S. labor, and the positions that labor has taken. Unless we have a successful discussion with the labor movement, I do not think it is going to be possible to deal with the Congress easily. You ask, what can Congress do?

One of the problems that Congress faces has to do with labor.

I am shocked at the way that people in the Administration, at the working level, refuse to talk to labor. They are afraid. They think they are going to get eaten alive.

Mr. Ortega: Why?

Mr. Abelson: Because labor is opposed to the preferential tariff treatment that is given. They do not like the *maquiladora* program. They do not like any of the policies that take advantage of inexpensive Mexican labor, and they see it as a direct threat to their workers, regardless of all of the studies.

Mr. Ortega: Does that mean that the unions will oppose any kind of organization, say, in terms of sectoral arrangements that Mexico has been talking with the U.S.?

Mr. Abelson: I do not speak for them — but in the context that I have made initially, they would be deeply concerned if there was, for example, something just on the automotive side, because what is going to happen is assembly jobs will move. They are labor intensive, and they will move down to Mexico. That may work to everybody's benefit in the long term, except the assembly workers in Tennessee.

Dr. Hudgins: Maybe if I could shift the discussion a little bit, What about the Mexican side? Mexico has tended to be protectionist, in terms of investments, as well as trade, and I mentioned the positive changes that occurred in the last couple of years. But do you see, in Mexico, a big change in attitudes, not just among Salinas and his associates, but in a wider spectrum of society? Do you see this kind of change occurring? Perhaps, Raul, you might want to say something about it?

Mr. Ortega: For Mexican businessmen, the changes we have experienced in the past few months have been tremendous. Many companies have suffered, have paid the price.

Mrs. Bowie: I have not seen any final figure, but certainly you have had a surge of imports.

Mr. Ortega: It is possible we will have a deficit in 1988.

Mrs. Bowie: That is in your trade balance?

Mr. Ortega: Yes.

Mrs. Bowie: After a substantial surplus in 1987, it was a steady drop over the year, in terms of that.

Mr. Brisson: The U.S. and Mexican figures will never fit together.

Mrs. Bowie: Partly because of how they count computers.

Dr. Hudgins: By the way, maybe that is a good technical point to clarify.

Mr. Marshall: What is Congress's projection for this year?

Mr. Brisson: We do not have projections for 1989, just for 1988.

Mr. Ortega: What has been amazing for me is to listen to the private sector. Too many of the groups and businessmen in America defend the Administration on trade and investment. Not only that, but they encourage the government to go further. I should say maybe that in terms of changing or amending the current investment laws, there have been official position papers supporting those changes.

Mr. Marshall: We still get no indication that there is any change in foreign investment.

Mr. Ortega: There are many different groups. Many business groups are taking pains to put that in writing and state it publicly.

Mr. Marshall: It is actually by exception.

Mr. Ortega: I was surprised; I just got back from Mexico to listen to reports talking about going further and many of them, which was even heresy of some sort, talk about the free trade agreement.

Mrs. Bowie: That change of opinion has been dramatic in the last year.

Mr. Ortega: I think so. And I think that is a major step.

Dr. Hudgins: Let me follow up then on a couple of specific points. First, which businesses in Mexico do you see still out front in favor of protectionism, because they are benefiting from protectionism. Are businesses still a problem in that way?

Mr. Ortega: I guess so, especially among the middle - and small-sized companies.

Mrs. Bowie: What position are they taking?

Mr. Ortega: They are looking for protection.

Mr. Brisson: They opposed the GATT in 1985.

Mr. Kendall: That was astounding yesterday to hear that point about the direct investment figure being so low.

Mr. Marshall: One aspect of that: The Overseas Private Investment Corporation (OPIC), has for the past four years been conducting some quiet talks in Mexico, and there was some hope.

Mrs. Bowie: Interestingly enough, there was interest in Canacintra (National Chamber of Manufacturing Industries), because there was some interest for firms who wanted to deal with counterparts in Mexico who said, we cannot come in, if we cannot have an opening. We had a speaker down from Washington at a Canacintra breakfast who said, why can we not have openings? I thought, that is your own government, do not ask us. It was remarkable, some of the attitudes we were seeing.

Mr. Marshall: It is unfortunate, but it seems to be by the boards again, at least for now.

Mr. Brisson: The U.S., though, almost shot their own foot off at the OPIC thing, because we had this thing called the Inter-American Arbitration Agreement of 1929, which says that all the countries agreed to go to an extra-national court, if there were a problem, and that still applies to Mexico.

But the United States, years ago, took itself out of that. We use it as an argument that signing an OPIC agreement is no different from what you do with the GATT agreement.

Yet it is much easier for Mexico to sign the multilateral agreement that includes all Latin nations, than to be seen as entering into what looks like a specific agreement with the United States.

The way that OPIC is set up, it would be like the U.S. government versus the Mexican government, which would give some U.S. companies special treatment under the law that is not afforded to local Mexican companies.

Mr. Marshall: But as it is, and maybe you can correct me on this, they are arguing that Mexico may now be one of only three countries in Latin America without an OPIC agreement.

Dr. Hudgins: What about the question of a free trade area?

Mrs. Bowie: When the framework of understanding was signed with great ceremony, we were very careful to use guarded language about, this does not pretend to be a free trade agreement. And if we do not think we are going to have one any time in the foreseeable future, because of the sensitivities in Mexico.

Certainly the press commentary was just absolutely made it seem they are trying to sneak this into a free trade agreement. Within about six to eight months of that time; what you began to find was lots of inquiries from an interesting variety of people. How does this thing work? Can we study this Canadian one? There is a research unit at the Bank of Mexico studying, trying to do some econometric work, just studying the implications of what a free trade agreement would mean for Mexico. And so, there are certainly people that are thinking about it, but in the political context, I do not know.

Mr. Brisson: Well, economically, it is very difficult too. I mean, right now, they have their reservations based upon the massive differential in wages and some of the other things.

Mrs. Bowie: But the receptivity in terms of just general thought has changed, I think, dramatically.

Dr. Hudgins: Is that the impression? In other words, you see a lot of these sort of knee-jerk reactions that, oh, no, the gringos are going to take us over, have settled down to, well, I do not know, let us maybe take a look at it?

Mrs. Bowie: What would happen if —

Dr. Hudgins: So that kind of hostility has died out?

Mrs. Bowie: It depends upon whom you are talking to, but there are interesting people asking questions.

Mr. Ortega: Mexico is watching what is happening abroad on the bilateral fronts. It is watching very carefully what is going to happen with Japan and the U.S. with the free trade agreement accommodation, and Taiwan or some of the other Asian countries.

Mexico wants to be part of the big world, and it is trying to monitor that. After so many years of having this policy that took us away from the world, we are now trying to be linked into all of these institutions and we are trying to figure out what do we do with ourselves?

You might ask what is the attitude of the Mexican officials towards those situations? Do they seem to be willing to discuss these issues, or are they still closed to it?

Mr. Abelson: Again, there have been no discussions for months. The last set of talks under the old administration, there was no discussion in the free trade area on the Mexican side, but they showed a desire to talk about the sectors to come up with some way to fix the market and guarantee particular access.

Mrs. Bowie: We were certainly getting inquiries at the embassies, the U.S./Canada Auto Pact, of whatever year that was. We would like to look at this as a prototype.

Dr. Hudgins: The Mexicans, or some of them, anyway, are scared to death they will not be able to compete with U.S. technology. I think just the nature of the fears on both sides indicates why they are mistaken. These are complementary economies. Mexico will gain by this. Wages will start to go up in Mexico. Purchasing power will start to go up in Mexico. American businesses will find themselves becoming more competitive with the Japanese, and other countries, both in their own markets and overseas.

Mr. Marshall: This may become more obvious in the coming years, too, particularly in the mid-1990s, when the U.S. starts to have a real labor shortage.

Mr. Abelson: If that is the case, then it would allow the North American governments to have a discussion in the press that would be beneficial. Then you could sort of proceed.

The greatest problem I see to any discussion, is on the North American side, in that we are not fighting for that at all. The Congress is not fighting for that. We have not even begun that kind of discussion. We could do it. There is no question we could do it. We could lower our tariffs to zero. That would have a marginal effect in the United States and great effect in Mexico, but to try to get something like that through the Congress would be suicide.

Dr. Hudgins: I think that it would draw a lot more attention just because of these reasons. Because the U.S. economy and the Canadian economy are very similar and are very integrated anyway, despite what the Canadians thought, it was not a big concern down here, aside from the fact that the U.S. economy is ten times larger. There was just not a whole lot for anyone to get concerned about.

Mr. Abelson: Interestingly enough, the major problem in Canada was the cultural problem, and that is a problem that is going to come up with Mexico.

Mrs. Bowie: The feeling of the smaller partner is that somehow they are going to be swallowed up, that it is not going to be fair, although economic studies would say that the smaller partner gains more, which is why we have a political problem in selling it.

Mr. Abelson: There is absolutely no Administration policy on this at this point, but if you are going to have some sort of comprehensive arrangement, there has to be a code of ethics for multinational corporations, which deals with their behavior in either country.

My Treasury Department colleagues would come down on me like a ton of bricks for saying that there has to be a code of ethics about worker rights, and worker standards. This constitutes a whole other set of problems that did not exist with Canada, because, in fact, Canada and the United States are the same economy; we do not have the same economy with Mexico. Therefore, you have to deal with those visceral issues. You have to be culturally sensitive to this.

Mr. Brisson: That is the problem with Mexico too. Even when they have the laws that are the same as ours, say, workers' rights laws or laws about pollution control, they just do not have the enforcement capacity that we have to ensure that, in fact, people are not violating the laws.

We have our sophisticated groups and consulting firms galore that can be hired to check this kind of stuff. In Mexico, they just do not have the resources right now to hire a firm to constantly go around to make sure that the *maquilas* are not doing what they should not do.

Mr. Abelson: We deal with appearances and reality pretty well. The first thing you have to have is the people to deal with the reality.

Mrs. Bowie: I have been back for four months, so I have not lived in Mexico since October, but I was seeing this growing receptivity toward more free trade. Yet in the textile sector, I know that textile producers in Mexico were badly hurt by imports once everything was opened up. There was an attempt to have a quota system which was very short-lived. The duties were lowered in December and this quota was established for various categories for textile goods and it was all lifted in April.

Certainly, the Textile Manufacturers' Association was up in arms about the amount that were coming in. There may be a rising tide of a protectionist sentiment there that I would not have

perceived, because the results of the imports surge were not being felt that much when I was there. I am just curious if you want to say any more about it.

Mr. Ortega: They have been looking for protection all along and they have opposed liberalization from the beginning. It is hard to understand sometimes the different attitudes of the different groups, because you know the structure of the private sector in Mexico is rather complicated, because the chairman of the board of each one of the groups is the speaker and he has all the rights to say whatever he wants, whenever the press for him to do that. That is usually the way they convey their ideas.

It is a touchy issue, but nonetheless, many of these groups are now, at least, curious about these kinds of steps. I think we are going from one extreme to the other. We were close months ago. I think it is not very clever for us to do that. On the other side, it is very understandable because we lack the experience. We never were involved in real serious negotiations in terms of trade and we have to learn that very quickly.

I think we are late and we are not very well prepared, but we have to recognize that. Mexico is facing a real challenge in terms of being

serious about going forth in this project. I think that we have to be serious about the country first, not only in trade or economical terms, but also in political and social terms.

There is no way for us to be competitive at an international level, when we keep our education process closed, as it is right now. Yesterday, Mr. Cintron was talking about the specifics. If we want to be competitors, and open our markets, and have lowered tariffs and allow investment, all we are going to do is change our country and make Mexico a *maquiladora* country.

Mr. Kendall: Until Echeverria, or until about halfway into his term, the U.S. could invest in Mexico. The multinationals have been there for years, and many medium-sized companies have operated there for decades. They knew their way around. But after Echeverria, they were not putting more money in, by and large.

I do not think there has been help from the U.S. government in a number of ways. There is a lot of abstract talk about international economic transactions and so forth, but who is creating the wealth in the first place?

Again, getting American businessmen and women to focus on something is difficult — very few of them ever write a business plan that is worth anything. It is kept in their head and they jot a few notes down from their banker and they have not thought it out that well. A few do have goals and stick to them, but it takes some perseverance. I think you are going to find more and more people participating this way. But it is going to be that added push with private business groups, one at a time.

It is going to be a big chunk over five or ten years, a lot bigger than you think. I do not know if you can put a number on it right now. But it is in the national self interest to pursue opportunities there as well, on both sides of the border.

North American manufacturing companies, automotives and large and small appliances, consumer electronics, would be the three biggest areas using the three country sourcing system (U.S., Canada and Mexico). The markets may differ. They may be almost the same in the United States or Canada, while the markets in Mexico are slightly different.

There are slight differences in how the finished product turns out. There is still a niche market, but there are companies like Condomex in Mexico that takes the leadership role in some of this. As a private company, they were very good. So, I think there are ways to break through with small line businesses like that.

Mr. Brisson: One of the problems you have is that a lot of the *maquilas* are operating on just-in-time inventory programs. And, therefore, they need to have adequate infrastructure services. You have to be able to get into the customer in Tijuana who needs X widget and needs it in four days.

Mexico could do that very easily if there was a program for the government to inform people in the interior that there are opportunities on the border region. They do that somewhat, but it has not increased dramatically. The other thing is to make sure that people have access to things like facsimile machines and reliable telecommunications infrastructure, and rapid transport.

Mrs. Bowie: Another related issue is the matter of people having to have the right documentation and the right certificate.

Mr. Brisson: But in the city, you do not need that.

Ms. Bowie: For instance, I used to get these frantic emergency phone calls from somebody in Juarez. "We can't get our stuff across the border and we have to have certificate." The local office of the Mexican government up there, which was supposed to give it to them, says they cannot get any forms from Mexico City.

Mr. Brisson: What kind of forms?

Mrs. Bowie: There were a number of things. I would wind up calling over to SECOFI and they would say, oh, yes, we sent some of them up last week. We do not know why they did not get there.

Mr. Brisson: There are a number of problems there, but there is an opportunity—say, in SECOFI—to have a program of informing people in the interior, or getting them involved. As one Mexican government official told me, "We can make an ashtray for a nickel but it takes us \$5 to get it to market, by the time we find out that the ashtrays are blue

and now the market demands red ashtrays.” They need market information.

Dr. Hudgins: Do you think that is purely a matter of information? Or is it more of an infrastructure matter, or what? I have always wondered, if there is an opportunity, why are not there some entrepreneurs?

Mrs. Bowie: It is a great mystery to me. I have had a lot of inquiries about it, while I was down there. I had a hard time figuring out why these bottlenecks occurred where they did.

Mr. Brisson: But there is a difference. In the U.S., look who supplies Ford Motor Company. Ford Motor Company is supplied by thousands of little corporations. Most of them that supply the *maquila* industry do not realize that their sales to Ford are dependent upon exports to Mexico. And then, in Mexico, who is it going to be? It is going to be the small machine tool manufacturer in Pueblo or the guy in another small town?

These are not the guys who have large departments who can constantly chase market opportunities and can do large market research. They need to just have somebody tell them. Once they find out the opportunities are there, the word will spread, they will meet other people, and things will take off.

Dr. Hudgins: What about some sort of an aggressive consulting group or groups that would go around and do that. They would take a cut of the action in return for setting up some sales.

Mr. Kendall: That means actively talking about parallel banking or having those sources set, so that they can do the marketing and manufacturing and distribution without worrying about the rest of it. Or, denationalizing the banks, yesterday.

Dr. Hudgins: Why are there not – or are there – creative Mexicans who are running around to Pueblo, and some of these other places, going to businesses and saying, “Look, I will make you a deal for a certain cut of the profits? I can increase your sales, but I would like to have a contract with you. For everything I sell, I get a certain cut.” That is a reasonable deal and basically could be done with a lot of businesses.

Then he sets himself up with his own offices in Juarez, and Tijuana and places like this. And so, someone in the *maquila*, in Juarez, says we really could use some of this -- I know just the place -- I can get it for you -- In four days, okay, fine. And call down to Pueblo and say, I need this in two days, absolutely. And then four days later, you get the thing and the guy gets his cut. I am just curious. Does that go on, and if not, why not?

Mr. Ortega: I think there is room to do that.

Mr. Kendall: That is a form of manufacturers' rep. And there is another side I heard from another client recently that when his Mexican representative goes up there was something for the smaller Mexican companies, with similar tax advantages to the *maquila* programs, such that a smaller U.S. company could use components or parts of products or a product made down there. That is another benefit to link in. But have you heard anything? I do not know what you call it. It had tax benefits based very similarly on the *maquiladora* program, but it was for Mexican companies.

Mrs. Bowie: There is a Mexican government program. Some of the companies with major exports or something.

Mr. Brisson: There is a program for duty drawback.

Mrs. Bowie: But it is more than that.

Mr. Kendall: It is fairly new.

Mr. Brisson: You should remember though, that a wholly owned Mexican firm, and still be a *maquiladora* and qualify for all the same benefits. The PTEX program is just another form of duty drawback, for export-oriented firms, so they can import certain things.

There is an interesting thing going on in education, if you look at what the *maquiladoras* have been doing, for example, in the Tijuana area. In the state of Baja California, there are 21,000 college graduates a year, from junior and four-year colleges. They have been setting up programs to make sure that you get plant engineers. The schools have been very receptive in trying to work out programs to ensure their college graduates have a place to go and that they do not end up with a lot of professors just working around.

They said it has been extremely successful. They have been able to Mexicanize most of their plants within five years, and the productivity has been very high. There are probably some problems with education. With engineering, it is very theoretically oriented and they needed to get manufacturing engineers, and they have been successful in doing that.

Francisco Cancino: They have the facilities up right close to the *Maquilas*, also, so that they could just walk down the street.

Mr. Brisson: Well, the universities in Baja California have been amazingly receptive and cooperative with foreign Mexican businesses, trying to ensure that their graduates, in fact, stay when they are done.

Dr. Hudgins: Just a technical question to clarify. The question I think I heard here: How do we treat *maquila* trade versus how the Mexicans treat it? In other words, I am an American company and I have a subsidiary in Mexico that I am going to sell. I am going to take a million dollars worth of components, put it in my Mexico facility for assembly to come back here. What is the difference between the way we treat that statistically, versus the way that they treat that statistically?

Mr. Brisson: Well, the Mexicans treat it basically like an export and an import. It comes in in bond; therefore, it is not registered, and the service account records the Mexican value added. Whereas, we put it in our merchandized trade account.

They are recording it in their service account. The only thing is — and I have not found anyone who has been able to totally explain it — why they register a \$1.6 billion foreign exchange earnings, which is basically what you would expect most of the Mexican value added to be reflected in. And yet, we register \$8 billion coming in, under 807 [Sections 807 and 806 (see ff.) are items in the U.S. Tariff Schedule, according to which products made overseas from American parts and components can be imported back into the U.S. with tariff paid only on the value added to the product by foreign labor.] and only \$4.2 billion leaving. So there is \$3.8 billion in there that I do not know where it is. I do not know where the \$3.8 billion is hiding.

Dr. Hudgins: That is a good point for my paper. Where is the \$3.8 billion?

Mr. Brisson: I would not put it in because of the fact there are probably a lot of statistical things, and possibly a lot of services that are paid for, in pesos or something. I have not found it. And I am sure the answer is there. If I could figure out how to say it so eloquently in Spanish, SECOFI might have been able to tell me when I asked them.

Mrs. Bowie: You are right, the accounts never add up.

Mr. Brisson: It is not a problem, really. I think in Mexico, it almost makes sense recording it in the service trade accounts. It is not truly an import, but they do record, and maybe part of the linkage comes in the 20 percent that is allowed to be sold in the Mexican market that is recorded as an import eventually in Mexico.

Dr. Hudgins: About \$8 billion goes out for the U.S. and what comes in?

Mr. Brisson: No, \$8 billion comes in from Mexico and \$4.2 billion goes out. That is the 1987 figure. It is really hard to check because we do not have a way of telling what is really going out to Mexico for the program.

Another problem is some of the imports, maybe things that travel in bond from the United States, from third countries, went into Mexico and then eventually entered the United States as the import.

Dr. Hudgins: But to get benefits under 806 and 807, they have to be American components.

Mr. Brisson: Only the benefits are on the U.S. value added. Interestingly, Mexico only accounts for about 20 percent of the total goods coming in under those provisions.

Mrs. Bowie: That is one of the issues we have had to negotiate, certainly in the textile area. The argument on the Mexican side has always been, if this stuff is produced there, it should not count on U.S. quotas.

Dr. Hudgins: The other problem is with the Asians. Asian components go into products and then they come into the U.S. And the U.S. says, "Aha, the Asians are getting around our trade barriers."

Mr. Brisson: But the fact is (1) these are still U.S. subsidiaries – Asian companies, U.S. subsidiaries – and (2) they were paying duty on that.

The thing is the U.S. component or the Asian components in a Mexican *maquiladora* good are not the finished products.

Dr. Hudgins: There is duty on those.

Mr. Brisson: The Asians tend to use a much higher Mexican content than the U.S. corporations and, therefore, often are able to qualify for a larger sale in the Mexican market, as a border industry.

Dr. Hudgins: That is the other complaint I have heard up here a lot — that the Asians are somehow doing all sorts of terrible things, by going into Mexico, and getting around U.S. trade barriers.

Mr. Brisson: There is nothing the U.S. can do about it against them specifically. If it is a subsidiary of a U.S. corporation, you cannot say to the U.S. corporations that, if you have an Asian owner, you are not eligible. I mean, legally, they are all the same people to Mexico.

It is easier when people are giving excuses that people are cheating or something like that. And interestingly, a lot of the Asian countries have been transshipping their goods, sending them here to the U.S. for further processing and then sending them back to Japan and Korea for final sale.

Dr. Hudgins: I know that there are questions about European Community 1992, and how that is going to affect transshipments, where the Asians bring the stuff in here, for the purpose of selling it in the E.C., and the E.C. is talking about whether they should count it on their quotas? Now the E.C. is going through this whole silly argument and feeling that whatever they do will probably be wrong. I have great faith in the Europeans on this matter.

Mr. Cancino: The location of the *maquiladoras* is interesting because it is on the border and the superstructure in the interior may not be that good. The irony is that even the port of San Diego is not viewed as good enough and most of these things come in by way of Los Angeles, so that it then concentrates these people all on the border, where I guess there is more opposition. It also puts them closer to the United States for crossing into the United States. So you have all of these things weaving into each other.

Mr. Marshall: There is some spreading to other parts of the country.

Mr. Cancino: I guess it depends upon the type of product. The roads are not made to carry the heavy duty things.

Mr. Brisson: One nice thing to see would be more of them locating on the interior, buying U.S. goods, importing them, manufacturing something with Mexican integration and transshipping to Europe or Asia. That would be a nice kind of relationship, and it would benefit everybody.

Dr. Hudgins: As you said, the infrastructure in the interior is not very good. There are problems on the border as well. They do not have the housing. The public transportation is often not terribly good.

Mrs. Bowie: Who was it that made the point about being able to employ 400 more workers so that they could get to work?

Mr. Marshall: This is something that Salinas has been talking about, too.

Dr. Hudgins: In fact, one of the small technical things I found out about the housing situation is that businesses are required to pay into a certain government housing fund. I was asked how that was distributed, and was told that it is distributed by lot. This is the number I got — about 65 percent of the housing fund, coming out of industries in Juarez, come from the *maquila* industries, though, only 2 percent of the *maquila* workers get the housing benefits. Just in terms of how the housing is distributed in Juarez, how the people in Juarez are getting their housing subsidies, a very small percentage of *maquila* workers in Juarez are getting the housing, even though the *maquilas* contribute to the fund.

Mr. Brisson: I find that suspect. For one thing, *maquila* workers tend to be young people living with their parents.

Dr. Hudgins: Though even there, you know, I was asking about why they were having labor shortages in the *maquilas*. I said, surely in a place like Mexico you can find a few workers, since most of them are standing along the border trying to sneak over. What I was told was that the biggest problem is housing. There is no place to put them. Second comes public transportation. It exists, but it might take an hour and a

half for someone to get to work. Are there other problems I am missing in some of these cities?

Mr. Brisson: Well, some lack adequate water, electricity, telecommunications, everything. But that is not everywhere.

Dr. Hudgins: Especially in the interior, but from what I have seen of the border areas, again, Juarez and probably Tijuana and some of the others in Texas, they do have the electricity and they do have a lot of those sorts of things. I mean, water might be very expensive, but it is very expensive in El Paso. It is very expensive in a lot of places. I was told, in terms of getting the workers there, you have already got the factories. They are operating and actually have electricity so that they do not shut down half the time. Why cannot you get more workers?

Mrs. Bowie: Let me ask a question. An important issue is whether in fact, *maquilas* actually tend to stimulate more people coming across the border, because if they get the training in the *maquila*, then they think they can go on to work in a plant in the U.S. and make more money.

Mr. Kendall: That is a good question, because that was an active comment from a lot of people I was working with in Juarez. But that was almost three years ago now. There is a high turnover. They train them, pay them, and then they go.

Mr. Cancino: That was one of the things they did want to look at.

Mr. Brisson: Part of the high turnover rate you find with American companies is that they send an American down to be director of personnel relations. When you go to a *maquiladora*, personnel is the main reason that you are there and it should be the most important and best staffed office in the place, preferably headed by a Mexican.

I was talking to one woman who is a consultant in a *maquiladora* industry and she went to a place where they were giving them their lunch hour 11:30 in the morning. No Mexican wants lunch at 11:30 in the morning, and they were serving hotdogs in the cafeteria. That sounds funny and it is funny. But they run into other issues.

Go back to the transportation issue. The wages are the same everywhere. The work is fairly easy and repetitive, so that if somebody

opens a factory a half hour from your house, and you are working at one an hour away, any rational individual would like to just transfer to the next factory.



Biographies

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The U.S. and Mexico: Setting a New Agenda

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