Click here for Full Issue of EIR Volume 8, Number 44, November 10, 1981

the Houston NASA center. Now, under pressure from the Federal Reserve—which has increased the federal government's debt costs by $30 billion per year—the administration is reluctantly shutting down virtually the whole NASA program. As already noted, the threat of further cuts in the defense budget is a major depressant for the state's aerospace and other defense-related industry.

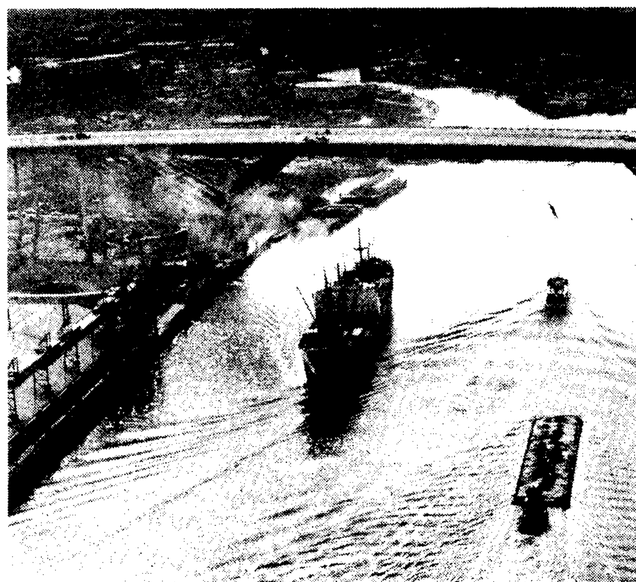
Of almost equal concern is American policy towards Mexico, our nation's fast-growing trading partner and a potential market for $50 billion in U.S. capital goods alone during the next decade. The last administration did not want—in the words of Zbigniew Brzezinski—"another Japan south of the border" and ruined energy deals that were in the American interest. Now President Reagan has struck a friendship with President José López Portillo, and sincerely wants the right kind of relations between the two countries. But the Cancún Summit meeting last week showed he had a lot to learn: to the extent that the specific economic policies he offered came from a script prepared by Treasury and State Department officers who write off the entire developing sector, the United States will lose its natural advantage in trade with Mexico.

Mexico does, indeed, want to become another Japan: the largest delegation of business leaders that Japan has ever sent to any country will be offering to help Mexico do just that during the same week that Texas Lyceum meets. However impressive the record of Texas oilfield service industries, among others, in exporting to Mexico, the next decade's opportunities will make the previous one's look puny. This has not been lost on other trading nations.

The great irony of the situation is that Texas might, indeed, escape the worst consequences of a failing U.S. economy, by virtue of its proximity to one of the greatest boom areas in the world economy. Not merely the oilfield market, but the demand for capital goods, agricultural technology, and every sort of industrial "know-how" will generate demands for Texas ingenuity from the Mexican side—regardless of whether Ronald Reagan is able to put the Volcker problem under control.

But the opportunity will not present itself in front of your office door. The immense improvement in Mexican-American relations since President Reagan took office is far from grounds for complacency. All indications are that the President himself does not fully understand the Central American problem, and has to deal with a State Department that thinks population control by any means is the only important American objective in the region.

Texas is going to have to fight hard for its chance for prosperity in the 1980s, not merely by stretching its traditional ingenuity, but by playing the kind of role in the nation's politics that guarantees that major opportunities are not missed.



Courtesy of Brown & Root

Houston's Ship Channel Bridge, gateway to the Gulf of Mexico.

Texas and the surge in U.S.-Mexico trade

by Timothy Rush

No area of U.S. trade has grown faster than that with Mexico over the past three years. During that time Mexico has moved from fifth place to third place in the list of American trading partners, and is rapidly moving up on second-place Canada. Translated into figures, the picture shows total two-way trade with Mexico at $14 billion in 1978, $21 billion in 1979, and $34 billion in 1980.

No state has benefited more from this explosion in trade than Texas, whose pre-eminence in the production of oil and gas equipment has perfectly matched Mexico's needs. It is estimated that a minimum of 75 percent of the Pemex technology acquired from the U.S. has been Texan; and Mexico is buying the vast bulk of its technology in America. During a four-year span in which Mexico fully trebled its oil and gas production up to the present 2.7 million bpd, it's no wonder that the Texas procurement office in Houston handled more business than all other Pemex procurement offices combined.

Texas benefited from Mexico's poor harvests of 1978-1980, participating in the U.S. grain export bonanza which peaked at 10 million tons in 1980.

© 1981 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

No precise statistics on Texas exports to Mexico are available, but a 1979 study conducted by the LBJ School of Public Affairs in Austin extrapolated Texas's share of exports in key categories from Texas's share in overall U.S. production of those items. The top six: 1) chemical: $163 million 2) Non-electrical machinery: $143 million 3) food products: $65 million 4) fabricated metal: $53 million 5) transport equipment: $51 million 6) electrical and electronic equipment: $46 million. In most categories these figures underestimate the situation, since they do not take into account Texas's proximity to Mexico, the oil and gas technology bonanza, and other factors. And in all areas of trade, Texas has gained by the concentration of transport throughout Texas border-crossing points—fully 65 percent of all American goods bound for Mexico in 1980! Figures from the International Trade Administration of the Commerce Department show the following phenomenal increase in border traffic over the past decade through the two Texas border customs districts of El Paso and Laredo: (in millions of dollars)

	El Paso		Laredo	
	1970	1980	1970	1980
Import	180	1,497	370	2,668
Export	87	1,754	963	8,302

The Port of Houston announced this year that Mexico is now its number-one shipping partner.

The trade surge in fact led to bottlenecks when the spectacular leap in Mexican production goods imports in 1979-1980 coincided with the surge in grain imports. Train crossings at Laredo, McAllen and Brownsville backed up for miles, and Missouri Pacific found its storage sidings crammed all the way back into the Midwest.

Much of that problem has eased today. Mexico ironed out some of the transport chaos inside the country. Customs procedures improved; U.S. exporters got more savvy about properly filling out paperwork; and probably most important, the flow of goods itself eased off somewhat, particularly as the Mexican grain purchases resumed lower levels.

And of the future? The basic climate for trade is set in Washington and Mexico City, not in Texas and its sister border states in Mexico. The Reagan administration seems to be getting off to a good start in reversing the bitterness of the Carter years, which took the edge off of what could have been an even greater boom for U.S. producers and transporters.

At the first full session of the new U.S.-Mexico Joint Commission on Trade and Commerce in Mexico City Sept. 21-22, U.S. Commerce Secretary Baldrige unbent a bit from lecturing Mexicans—whose mixed system of public and private production under state sector direction has worked out well for both partners—on the merits of British-style "free enterprise." "Developing countries, like Mexico—in their eagerness to expand their industrial base, increase exports, and raise their people's standard of living—sometimes require government intervention in the private sector. We understand that," he declared.

In a major trade and technology initiative, the U.S. delegation stressed renewed interest in Mexican nuclear development—an interest meeting an encouraging Mexican response (See *EIR*, Oct. 20). Some lesser issues were also successfully smoothed out, such as adjusting the steel trigger price on Mexican steel imports so that the base price is taken as of delivery in Houston rather than at the Eagle Pass border crossing.

Among the unresolved issues is trucking. The U.S. is demanding "reciprocity" so that U.S. truckers, currently banned from operations in Mexico, gain the opportunities which some Mexican firms have in the U.S. Mexico, however, is in no great hurry to work out a bilateral agreement on the point: it has noted U.S. Trade Negotiator Brock's interest in convening an international GATT-linked negotiating round on exactly such "invisibles" as the trucking issue represents, and wants to see the outcome on this level first.

The bigger problem areas to be overcome are the issues of General System of Preferences—the U.S. is threatening to apply its new "graduation" theory to ease Mexico out of some benefits here—and of countervailing duties. Baldrige kept open the trade warfare options in this latter category during his Mexico visit. One of the chief theorists of such trade war: University of Texas's Sidney Weintraub.

Most important are the broader economic policies of the Reagan administration. High interest rates are the single most important factor cutting into Mexico's internal expansion plans at this moment. The much heralded economic problems of Monterrey's Alfa Group, for instance, were triggered by a sudden leap of $110 million in debt repayment costs. Some $750 million has been cut from the firm's 1982 expansion plans.

And continuing declining energy consumption in the United States as well as most of the other OECD importers has left Mexico with at best a flat perspective for future energy sales—the motor for its growth and the method of payments for the import surge. It will be a number of years before other exports can reduce oil's crucial role. Finally, the Administration will have to pump some new life and funds into the Eximbank, if the United States is to successfully compete on such big-ticket items as $1 billion nuclear plants.

Hence, 1981 trade should continue to climb, probably to the $40 billion range. But sustained strong growth thereafter will require that the administration pull the country out of the current Volcker-Stockman economic nosedive.