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# Mexico bailout: quid pro quo for commitment to common market?

by Peter Rush

Experiencing a hemorrhaging of dollars of over half a billion a week from its national reserves, and facing worse to come, the Mexican government scampered off to its friends in Washington to request yet another bailout to keep its shaky financial ship afloat. Responding in under two weeks with an alacrity that stunned the banking world, the Treasury and Federal Reserve came up with their offer of a $3.5 billion "bridge" loan, and told the world this was a reward for Mexico's dutiful carrying out of U.S. wishes with respect to "reforms" of the Mexican financial and economic system.

But the proverbial fine print reveals the loan offer to be little more than a "media event" intended to shore up "confidence" in the Mexican markets, at least long enough for George Bush to slide into office before a financial holocaust engulfs Mexico—and the rest of Ibero-America. Moreover, there is every reason to suspect that there was an unreported price paid by Mexico for the loan offer, in the form of commitments from the incoming Carlos Salinas de Gortari administration to speed up the turning of Mexico into an economic colonial satrapy of the United States, on the model of a large-scale Puerto Rico, culminating in Mexico's joining the much discussed "North American Common Market."

The backdrop to the remarkable loan offer is the steady erosion of Mexico's foreign exchange holdings, which have dropped from over $16 billion in May, to an estimated $10 billion today. More worrisome for Mexican authorities, capital flight accelerated sharply during September, as speculators began betting on a near-term "maxi"-devaluation of the peso. *El Financiero* reported Oct. 17 that about 5 trillion pesos moved out of the government paper known as "CETES" and into dollars which then fled the country, drawing down dollar reserves by more than $2 billion.

At the same time, Mexico's trade picture has gone from bad to worse. Falling oil prices have slashed export revenue from that source, while non-oil exports are expected to show sharp declines for the second quarter of 1988, as exporters suffer from the effects of high inflation since last January, uncompensated by devaluation. Already some exporters are threatening they will shortly have to close their doors if peso costs continue to rise vis-à-vis dollar receipts for export sales. Moreover, the failure to devalue and the new reduction of tariffs have caused a flood of cheap imports which have led to an increase in imports of 50%. As a result, Mexico's normally large trade surplus is shrinking fast, and its balance of payments is reportedly on the verge of becoming negative for the first time since 1982.

Internally, the expectation of the speculators who maintain the government's more than $15 billion in internal debt, and the more than $25 billion in non-government money markets—90 trillion pesos altogether—that a devaluation was imminent had forced interest rates up from 72% to 120% on one- and three-day notes as of Oct. 14, the Friday before the loan announcement. The government's refusal to pay these rates to roll over the CETES was the major cause of the flight from government paper into dollars.

It was to impress these speculators, who currently control Mexico's financial system, that Salinas de Gortari sent his negotiator José Córdoba to Washington early in October to open negotiations for a loan intended to show U.S. confidence in Mexico. The appropriate U.S. authorities apparently got the message. The scale and timing of the loan "surprised most commercial bankers," reported the *Financial Times* of London Oct. 19, while an informed London banking source reported that in the negotiations, conducted "in the most absolute secrecy I have ever seen," Washington has treated Mexico like a Texas bank bailout. The *Financial Times* further noted that "the two most remarkable aspects of the Mexican agreement are its size, many times larger than any bridging loan for a debt-burdened developing country, and the uncertainty of how it will be repaid."

Beneath all the hoopla, what does the U.S. offer actually amount to? Since only $1 billion of the loan can be drawn in the short term, it would be a drop in the bucket against a determined run on the peso. Rather, its real purpose is psychological, to tell the world—and the speculators—that the United States is 100% behind Salinas and his policies. The official joint announcement of the Treasury and the Federal Reserve on Oct. 17 praised the "economic measures recently announced by the government of Mexico," singling out "the process of fiscal consolidation and the structural transformation of its external sector," and saying that "U.S. and Mexican authorities have agreed that Mexico's strengthened



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economic policies merit support." The policies referred to include Mexico's lowering of tariffs and freeing up of imports, selling off most of its parastatal companies, repeated cutting of the government budget, and enforcing the so-called "Economic Solidarity Pact" under which real wages are allowed to continue falling. The announcement further stated, incredibly, that Mexico "has established the basic conditions for the renewal of sustained economic growth," a claim belied by the very urgency of the loan offer.

Press coverage of the loan has focused on the obvious concern of U.S. authorities that nothing untoward happen to Mexico's financial house of cards in the waning weeks of the De la Madrid administration. "The U.S. evidently wanted to let the world know that no crisis would be allowed to develop" in the wake of the oil price fall, stated an Oct. 24 *Washington Post* editorial. The *Financial Times* called the loan offer "a dramatic gesture of the building of confidence at a moment of extreme political sensitivity in Mexico." Salinas's backers, according to the *Times,* said that "he now has a cushion of financial support and can clearly demonstrate that future economic strategy enjoys the full confidence of the U.S."

A more sanguine view was expressed by a key London banker, who commented, "We can assume that Bush did not want the debt crisis to explode on election eve," while the *Financial Times* commented that the loan "was also intended to ensure that nothing untoward disrupts the apotheosis of Mr. Bush."

Critics in the banking comunity have reportedly complained of the absence of an explicit agreement with the IMF. However, the wording of the loan announcement makes clear that disbursing the loan is "dependent on the development of loan programs by Mexico with the World Bank and the IMF." The arrival in Mexico of World Bank Vice President Shaid Hussain just two days before the loan announcement, to head up a 50-person joint World Bank-IMF team to study the Mexican economy, shows that present Mexican policy already enjoys the 100% backing of both institutions.

Moreover, behind the loan lies a set of agreements between the U.S. and Salinas de Gortari, that have not been made public. The announcement by President De la Madrid of a further $250 million cut in the government budget, and the agreement reached to extend the Solidarity Pact at least until Jan. 1, are widely believed to have been part of the deal. De la Madrid also just announced the "privatization" of another several score public companies, perhaps as part of the deal.

Not reported, but almost certainly part of the deal, is an agreement by Salinas to move as rapidly as possible to integrate Mexico into the proposed "North American Common Market" heralded by the recently signed trade accords between the U.S. and Canada. Not only is Salinas known to privately favor the idea, but it is being championed by a new "Binational Committee for the Future of Mexico-U.S. Relations" which is certain to have Salinas's full support. The Binational Committee just announced Oct. 14, following a recent meeting, that one of its top agenda items is to push for the common market idea in the economic sectors in Mexico, and in the government, to overcome popular resistance to the idea.

The idea of the common market is also consistent with Salinas's known program for giving the private sector almost free rein in all economic matters, while further freeing foreign trade. The predictable result will be the spread to the whole of Mexico of the *maquila* system that already dominates the northern border with the U.S. This entails setting up low-skill assembly factories for U.S. products whereby semi-finished products are imported and finished goods reexported. Labor receives very low salaries—currently much less than 10% of U.S. wages—while the foreign exchange earned goes strictly for paying interest on Mexico's foreign debt. A common market arrangement will doom what remains of Mexico's industry that serves the domestic market.

However, this entire scheme depends on permanently forestalling the expected financial blowout that was the impetus for granting the loan in the first place. While the *New York Times* reports Oct. 23 that the loan has eased the immediate pressure against the peso, absolutely nothing has been solved by this latest gambit. The economy continues collapsing, at an accelerating rate. The latest casualties are in the agricultural sector, where farmers are saying they cannot afford to plant next spring's crop at the just-announced parity prices, while vegetable exporters have said they can no longer afford to export at existing exchange rates. *Excélsior* correspondent Roberto Vizcaíno summed up the economy Salinas will inherit, calling it undercapitalized, overindebted, inflation-prone, and with inadequate "technological and financial infrastructure . . . to assure growth and the necessary development demanded by the country." In short, six years of internal looting to pay the foreign debt has left the country an economic shell, which simply cannot continue much longer in its present mold.

In the short term, inflation has been held to under 1% a month only by flooding the country with cheap imports, holding interest rates at hundreds of percent above inflation, and continuing to suppress the wages of workers who have already lost more than 50% of their real incomes in the last six years. The pressure for devaluation will eventually have to be satisfied, which will immediately unleash inflation again. Also, the price freeze has merely suppressed, not eliminated inflation. A 30% price increase has just been announced for meat and eggs, with another increase to follow in January, and there are hundreds of other products whose prices must be increased, or production will stop. Hence, the present loan solves nothing. As observed by the *Financial Times* in an Oct. 19 editorial, the United States may up merely wasting its resources propping up the peso, and in the process giving the green light to flight capital, financed with the loan.