Restricting imports, stepping up exports?

The U.S.-Mexico summit is on again. Will the trade issue help or hurt future relations?

As most of you know by now, the López Portillo-Reagan summit, originally set for San Diego and Tijuana April 27-28, has a new time and place: June 8-9 in Washington. This is excellent news, and puts the tasks of improving U.S.-Mexico relations back on the front burner.

As we have highlighted in *EIR* many times, an explicit oil-for-technology trade framework between our two countries would add immeasurably to both economic prospects and general good will. Mexico is currently the third-largest trade partner of the United States; at the phenomenal current growth rate of up to 35 percent per year in volume terms, it can be the biggest U.S. partner by 1990.

I was pleased to see that Reagan's undersecretary of commerce, William Morris, took the same upbeat approach in his speech to a San Antonio symposium on U.S.-Mexico trade the first week in May. Morris pegged the U.S. share of import-export trade with Mexico by 1985 at $100 billion, a figure similar to *EIR*'s projections. "The opportunities during this period are tremendous," he stated.

But there are problems. Morris also issued a veiled threat that there will be "conflict" if Mexico tightens up import restrictions. Mexico is in fact moving in this direction. It eased import restrictions at the beginning of the López Portillo term, when an undervalued peso made imports expensive. Now, as the peso goes up in value, imports are flooding in.

Mexico is not cutting into these imports across the board. In line with the Hamiltonian policies that lay behind Mexico's rejection of GATT, its selective efforts help protect fledgling industries.

It would be a big break with Carter's disastrous trade record with Mexico if the Reagan admnistration refrained from British-style "free-trade" arguments against Mexico on this issue. But there's more trouble brewing from the trade warfare specialists.

On April 10, the U.S. Commerce Department slapped on a 5 percent countervailing duty on American imports of Mexican leather goods. You probably have not heard much about this, since it involves all of $26 million of dutiable goods and was based on "lack of information" rather than a finding that Mexico's tax deferment program for exporters, called CEDI, was counter to U.S. law on foreign subsidies.

But the British press, particularly the *Financial Times*, has seen fit to make the issue into one of "imminent trade warfare." Washington sources tell me the State Department is also spreading dark warnings that the issue is "sensitive" and "could blow up." Officers at the U.S. embassy here report that the United Autoworkers has made inquiries about the leather goods "precedent" to see if the much larger area of Mexican auto parts manufacture may fall under the countervailing duties code.

The CEDI program works much like the DISC program in the United States: it discounts internal taxes when the finished product is bound for export. In a 1979 decision, the U.S. government ruled it okay. It hardly seems worthwhile courting a blowup with Amerca's fastest-growing trading partner to haggle over the concept now.

I use the term "trade warfare specialists" advisedly. I remember talking to a U.S. business acquaintance, exactly a year ago, who reported that University of Texas's Sidney Weintraub was warning American businessmen to brace for a trade blowout. Weintraub, who specialized in trade warfare issues at Brookings and was furious at Mexico for rejecting GATT, assiduously spread the word that he expected U.S. firms to challenge Mexican "subsidies," and that "this issue will be big."

John Plunkett, an official of the American Chamber of Commerce of Mexico, followed directly in the Weintraub line in comments at the same San Antonio conference William Morris addressed last week.

Plunkett portrayed Mexico as under a sword of Damocles: to spur lagging non-oil exports, Mexico either had to devalue its peso at an accelerated rate or increase subsidies. And if it increased subsidies, it would run foul of the Commerce Department, "as shown by the leather apparel decision."

So keep your eyes open for those attempting to heat the trade issue. They are no friends of a potential $100 billion market, and you can expect them to be very active between now and June 8.