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U.S. launches trade war

Mexico is buckled to the IMF's asset grab, while the U.S. cuts off every option for development.

Mexico capitulated to pressure from the International Monetary Fund and allied financial circles Feb. 17 and agreed to "flexibly interpret" its foreign investment laws, opening the way for an unprecedented asset grab by foreign creditors.

The new investment "guidelines" place almost the entirety of Mexican industry (except for oil and electricity) on the list of "exceptional cases" of new investments which are now open to majority foreign control. Second, equity in existing Mexican-owned factories and other assets can now legally be handed over to foreign control for the first time.

Mexico's surrender creates a precedent for "debt-for-equity" looting against the rest of the continent, particularly Brazil. Under the rubric of "Hong Kong economics," these were the essential demands made by Henry Kissinger's Central America Commission Report. The Kissinger plan will force the economies of Ibero-America into the world's biggest "cash crop": the drug trade.

While the Mideast crisis is placing U.S. oil supplies in increasing jeopardy, traitors in the State and Commerce Departments are doing everything possible to bludgeon and alienate Mexico, America's natural ally and the best possible alternative oil supplier.

The means to reverse this policy disaster are readily at hand. As *EIR* has urged, the United States should immediately offer oil-for-technology deals to Mexico, receiving guaranteed deliveries of oil in exchange for capital goods. *EIR* calculates that Mexico could represent a $100 billion market for U.S. capital goods over a five-year period, if Mexico's oil revenues were only put into trade and investment instead of debt reservicing.

Instead, the U.S. Commerce Department ruled Feb. 6 that Mexican, Brazilian, and Argentinian steel exports to the U.S. were being "unfairly subsidized" and are subject to what are called countervailing customs duties. Then on Feb. 15 the United States closed the border to imports of Mexican meat.

The American embassy issued a public blackmail note the same day stating that Mexico would be out of difficulty on the steel issue if it would only join the General Agreement on Tariffs and Trade (GATT), a measure Mexico has traditionally opposed as detrimental to its industrial development program. As Mexico is well aware, membership in GATT did nothing to shield Brazil from being slapped with a 27 percent countervailing duty by the United States.

Mexican business circles have told *EIR* that these measures on the part of the United States have left the country bewildered and infuriated. The International Monetary Fund is insisting that Mexico pay its debt by exporting more and importing less; yet steel was one of the few non-oil exports that Mexico was able to expand last year.

President Miguel de la Madrid, in an interview with *The New York Times* Feb. 13, warned that these trade war measures, and high U.S. interest rates, are creating a crisis in relations with the United States. It is in the interest of the industrialized countries themselves, he insisted, to abandon such destructive measures. "Our foreign debt service absorbs a large part of our effort," he said. "This year, for example, the payment of the interest alone is equal to the income from our total oil exports. This creates a serious problem for us with respect to our balance of payments and managing our budget."

De la Madrid was not exaggerating the devastating effect of U.S. Federal Reserve chairman Paul Volcker's high interest rates on Mexico. Between 1979, the last year before Volcker's interest rates shot to the sky, and 1984, Mexican payment of interest (excluding principal) on foreign debt exploded from $3 billion to $13 billion a year.

For a while, Mexico could keep up with the additional cost because its oil production and price levels were also rising. However, in 1981-1982 it reached its current "platform of production" of an average 2.5 million barrels per day.

Since 1981, every rise in interest payments has come directly out of vital imports of capital goods. Total imports, weighted toward capital and intermediate goods, fell from $24 billion in 1981 to $16 billion in 1982 to $8 billion in 1983.

De la Madrid emphasized: "Mexico's problem is very similar to that of other developing countries. And I do not believe that the economic recovery of the world can be achieved only with the great thrust of the economy of the United States or of the industrialized countries. That is, that if we do not find a way for cooperation to be of benefit also to the developing world, we will encounter serious problems for the industrialized economies themselves."

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