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MEXICO AND THE U.S. AT THE SUMMIT

INTRODUCTION

On August 14, 1983, the fourth and by far the most important summit between President Ronald Reagan and Mexican President Miguel de la Madrid takes place in La Paz, Baja, California. The increasing turmoil in Central America, along with Mexico's serious economic problems, means a full agenda for the session.

Because of its crucial location, bordering both the Caribbean and Central America, Mexico is inevitably an important factor in the current situation. Because Mexico thus far has chosen to pursue a Central American policy at odds with the U.S., the principal objective of President Reagan at this meeting should be to seek, if not active Mexican cooperation, at least a Mexican policy of parallelism with the U.S. approach to Central America. Reagan should request that Mexico cease its rhetorical support for Cuba and leftist radical movements in Central America and place its weight, quietly if not publicly, behind policies which support elections rather than violence in El Salvador, which advocate pluralism in Nicaragua, and which oppose arms shipments to Marxist forces in Central America. Reagan must explain why this is in Mexico's long-term best interests.

At the same time, Reagan should review U.S.-Mexican economic relations and urge Mexico to move away from a state-controlled economy toward a stronger private sector. While U.S. self-interest was a motivating factor in the recent U.S.-sponsored massive emergency financial assistance to Mexico, it was still a major act of generosity; Reagan should not hesitate to point this out and suggest that the U.S. would appreciate a reorientation of Mexico's Central American policies. Reagan should offer the possibility of import concessions in return for an increased private sector role in the Mexican economy, more encouragement of private investment, and a change in the Mexican policy of support for radicals in Central America.

A third issue that should be on the Reagan agenda is immigration. Reagan should advise President de la Madrid that the U.S. is determined to end the unchecked flow of Mexican citizens into the U.S., but that the timing and application of this policy will depend upon Mexico's cooperation on foreign policy matters and its economic development policies.

UNITED STATES-MEXICO RELATIONS

United States-Mexican relations are sharply divided into two distinct, and often paradoxical, spheres: economics and politics. Not only do the U.S. and Mexico share a 2,000 mile unprotected border, but until recently Mexico was the U.S.' number one trading partner in Latin America--and third in the world.

While U.S. and Mexican businessmen understand each other, the politicians apparently do not. U.S. presidents for the last several decades have had the thankless task of convincing Mexico that its self-interest and well-being lies in cooperation, not confrontation with the United States. President Reagan has elaborately courted former President Jose Lopez Portillo and Miguel de la Madrid with a frequent exchange of visits and discussions as well as major economic assistance programs. Yet Mexico's tradition of reflexive condemnation of the United States in the international arena remains unchanged.

Mexico's ruling PRI (Institutional Revolutionary Party) came to power in 1929 following a protracted nationalist revolution with a strong socialist orientation emphasizing labor and land reform. The PRI has won every presidential election since then. Every six years the outgoing PRI president has named the PRI presidential candidate who has, without exception, been elected.

The national myth of Mexico having had its "revolution" has led the leaders of the country to assert that Mexico is in the vanguard of change for the rest of Latin America. Clearly Mexico fails to distinguish their relatively modest reform programs with real Marxist revolutionary upheavals sustained by external intervention in other Latin American countries.

Recent municipal election victories of the PAN (National Action Party) in some northern cities are not yet a real threat to the PRI's entrenched power. Considerably more conservative than PRI, PAN is led by Pablo Emilio Madero, a relative of Francisco Madero, the hero of the 1910 Revolution. This is very important for the tradition of the revolution and the myths that have grown around it play a huge role in the Mexicans' political consciousness. Thus, although PAN is neither large nor strong, the charismatic appeal of Madero is great. This, coupled with public lack of confidence in the PRI, could eventually challenge the one-party system of presidential elections.

Mexico's discomfort at existing in the shadow of the United States has been the principal motivation for its support of leftist causes abroad. But this has not made Mexico a Soviet client, unlike Cuba and Nicaragua. Although Mexico has supported Cuba since 1960, when Mexico was the only member of the Organization of American States that did not break relations with Havana, it does so more out of self-interest than ideological solidarity. A tacit agreement between Mexico and the Soviet/Cuban bloc allows Mexico to give the Soviets international verbal support in return for immunity for the present from Cuban-organized terrorism domestically.

MEXICO AND CENTRAL AMERICA

Mexico's aims in Central America should coincide with those of the United States. Its repression of domestic pockets of terrorist activity is as harsh as its support of international radicalism is strong. Mexico's backing of the Sandinistas in their war with the Somoza government in Nicaragua was enthusiastic. As Nicaragua, with Cuban support, has extended its "revolution without borders" into El Salvador, Mexico extended its support of the Sandinistas to the FMLN (Farabundo Marti Liberation Front) guerrillas in El Salvador.

From the Mexican "pluralistic revolution" point of view, opposition to the Somoza government could be justified as part of the myth that Mexico cultivates as the self-appointed liquidator of traditional oligarchies in Latin America. This does not justify, however, Mexico's support for the FMLN or for undermining the Duarte government in El Salvador. The Duarte government was initiating precisely the types of reform advocated by Mexico. Nonetheless, in August 1981 Mexico and France issued a joint statement recognizing the Salvadoran guerrillas as "a representative political force," elevating their status and credibility in direct opposition to U.S. policy. This French-Mexican initiative promptly was condemned as "intervention" by 14 other Latin American countries; only Cuba and Grenada supported the initiative. Undeterred, Mexico continued to attempt to muster support for Cuban-backed peace proposals.

Along with Panama, Colombia and Venezuela, Mexico is part of the Contadora Group, named after the Panamanian island where they first met. The Group is seeking an end to the "arms race" and to all foreign intervention in Central America. Until the appointment this spring of U.S. Special Envoy to Central America Richard Stone, the Group's activity was limited to inspecting border areas. Lately, it has been acting as a go-between for Ambassador Stone and the Salvadoran guerrillas.

Washington's reaction to the Group's efforts has been mixed. Strong Cuban endorsement of Contadora has caused hesitation, as has the Group's double standard in assessing the scope and content of Cuban versus United States activities in the region. At one time Reagan believed that Mexico and Venezuela could be enlisted to assume responsibility to keep the Cubans out of the area.

Venezuela continues to straddle the issue. Mexico, however, has maintained its tacit agreement with the Soviets of supporting them internationally in exchange for their restraint in organizing communist revolution within Mexico.

Nonetheless, when meeting de la Madrid, Reagan should raise the matter of Mexican Central American policy, especially since the region is a vital U.S. concern. Reagan should stress that the time is past when Mexico could score easy rhetorical and political points with some constituencies by aligning itself with anti-U.S. forces in the hemisphere and not expect a sharp reaction from the U.S. Mexico must accept its responsibility as part of the Western community of nations and insist that while political pluralism and non-alignment are acceptable, overt and active alignment by Central American and Caribbean nations with, and violent changes in the status quo by, Marxist forces are not. If Marxist turmoil were to spread to Mexico, Reagan should note, the human and material cost of the conflict would dwarf those incurred in El Salvador and Nicaragua.

MEXICO'S ECONOMIC CRISIS

A second major subject for the two Presidents will be economic matters. President de la Madrid is a Harvard-educated economist and was Minister of Budget and Planning in the Lopez Portillo Administration. He is well aware of the precarious state of his nation's economy and how it got there. The Mexican government, moreover, suffers grievously from corruption and inefficiency. Public expectations of prosperity soared as Mexico became a major oil producer in 1979. Much of this increase in revenue, however, stayed in the hands of the PRI elite, some of whom are alleged to have embezzled tens of millions of dollars.

De la Madrid campaigned, as did most of his predecessors, for a crackdown on corruption and a "moral renovation" of Mexico. Thus far former PEMEX (the state-owned oil company) head Jorge Diaz Serrano, now a Senator, has been charged with a \$34 million fraud of PEMEX. It is the first time in over 30 years that a Senator has been charged. Whether or not the crackdown will be significant or merely symbolic is key to de la Madrid's ability to restore public confidence.

For four years Mexico based its public spending and borrowing policy on the fantasy that oil revenue would continue gushing. It was not anticipated that the world energy market would soften the way it has in the past year. As a result, Mexico's debts have mounted, fueled by excessive public sector spending and massive government subsidies to consumers and producers. This triggered the August 1982 announcement that Mexico could not meet payments on its \$80 billion foreign debt, about one-third owed to U.S. banks. This was a public recognition that government policy had failed.

Instead of a shift to free enterprise policies, the government opted for more state control. In 1970, 20 percent of the Mexican

economy was under state control. With the September 1, 1982 nationalization of the banks under outgoing President Lopez Portillo, public sector control soared to between 70 and 80 percent.

Within days of the August crisis, the United States marshalled a massive assistance package. The U.S. Department of Commerce reports that "the package included a \$1 billion advance payment for petroleum exports for the U.S. Strategic Petroleum Reserve; up to \$1 billion of U.S. government guarantees issued by the Commodity Credit Corporation to support U.S. commercial bank loans for purchases of U.S. agricultural products; and a \$1.5 billion short-term 'swap' loan involving the U.S. Treasury, the Federal Reserve and the Bank for International Settlements, representing a group of central banks from Mexico's other creditor nations."

In his December 1, 1982 Inaugural Address, President de la Madrid outlined his "Immediate Program for Economic Reordering" which declared the state the "caretaker" of the Mexican mixed economy. He also has declared the nationalization of the banks to be "irreversible."

One of the most devastating aspects of the crisis is the near-collapse of the peso. Just two years ago, \$1 bought about 25 pesos; today the dollar buys about six times that. As such, it now costs six times as much in pesos to buy items priced in dollars as it did in 1981. Inflation, meanwhile, ran at 98.8 percent for 1982. The sole glimmer of good news is that for the first time in 39 years Mexico last year had a trade surplus of \$6 billion. However, this was not due to increased domestic production (it has fallen sharply), but because there is no money to pay for imports. This has caused an additional economic slowdown as imported spare parts, materials, and components are not available for production.

Until the crisis, Mexico ranked only after Canada and Japan as the leading U.S. trade partner. In 1982 Mexican imports were down \$10 billion, which meant a loss of approximately 250,000 jobs for Americans in export industries. In addition, U.S. border communities have reported losses of up to 80 percent in sales; local unemployment runs at 27.2 percent, nearly three times the national average.

One solution for Mexico may be to pump more oil until it pays off its debts. This is not feasible for two reasons: the current oil glut weakens the market for increased sales and Mexico does not have the foreign currency to buy the equipment necessary for increased production.

Domestic belt-tightening and compliance with International Monetary Fund loan conditions have allowed Mexico to meet its debt payments on time. In June, Mexico became financially stable enough not to need an additional \$1 billion that bankers had made available on May 31.

Given the close relationship between the Mexican and U.S. economies and their importance to each other, President Reagan

obviously will raise the economic issue at the summit meeting. He should urge Mexico to take steps to improve its trade performance. A central issue in Mexican-U.S. trade relations involves countervailing duties.¹

Mexico is not a signatory of the GATT (General Agreement on Trade and Tariffs). Under U.S. law, a U.S. manufacturer can request that, because its business is being hurt by unfair foreign competition, a U.S. tariff (countervailing duty)--equivalent to the amount of government subsidy the foreign company is receiving--should be levied on the foreign product when it enters the U.S. If, however, the country of the foreign competitor is a signatory of the GATT, then the U.S. manufacturer must prove that it is being injured. If, as in Mexico's case, the foreign country is not a signatory, then the fact of government subsidization is itself sufficient for the imposition of countervailing duties; injury need not be proved.

Though Mexico refuses to remove subsidies from its manufactured products, it wants to have the "injury test" applicable to its products--despite the fact that Mexico has not signed GATT. Washington could accommodate Mexico by requiring that U.S. producers prove injury caused by Mexican imports. It could also administratively give a relatively loose interpretation to the definition of a "subsidy." This could be in U.S. interests for a stronger Mexican economy will buy more U.S. goods. If the U.S. pledges to make economic concessions to Mexico, such as imposing a strict proof of injury test, Reagan should obtain, in return, a change in the Mexican stand on Central American political issues. If Mexico makes efforts to be more cooperative, then U.S. economic policy can be responsive.

Additional imaginative economic initiatives can be pursued in a more friendly political climate, including expansion of the 12-mile free trade zone along the border. Under this program inbound materials and parts can be used for assembly and production under special restrictions. 129 plants are now operational under this system. Finally, the U.S. could grant Mexico's request for \$2 billion in official credits, including \$1 billion to buy food, spare parts, and basic industrial goods. But credits should only be approved on condition that Mexico's private sector be strengthened.

ILLEGAL IMMIGRATION

For Mexicans, immigration to the U.S. is the most sensitive of issues. With 1,000,000 youths pouring into the workforce each year and unemployment at 50 percent, Mexico sees emigration as a safety valve. In 1982, an estimated 500,000 illegal aliens entered the United States, most of them Mexican. A further

¹ Countervailing duties are levies imposed by the U.S. Government on imported products where foreign governments have subsidized production costs.

deterioration of the Mexican economy or increased political turmoil will increase the flow.

The immigration issue not only is complex--requiring careful analysis--but is politically sensitive. The Reagan Administration supports the Simpson-Mazzoli bill which would establish a limited form of amnesty for illegal aliens already in the United States. It then would establish a system designed to reduce substantially the future flow of illegal aliens to the U.S.

President Reagan can offer Mexico marginal modifications of the timing and implementation of this policy, if Mexico makes good faith efforts to strengthen its private sector and is more forthcoming on foreign policy issues.

CONCLUSION

Mexico has proudly proclaimed its "independent" foreign policy. The truth is that it is not independent, but is obsessed by an apparent need to oppose the United States. It is time for Mexico to set its policies in terms of their relevance to Mexican security and economic interests.

It is time too that Mexico reassess where its true interests reside. Its cultural, political and economic systems have much more in common with the West than with the various socialisms of the East or of Cuba. It is not necessary for Mexico to follow faithfully all nuances of U.S. policy. As with Canada, that other country bordering the U.S., Mexico could follow a policy of parallelism on important security and economic matters and cease from actively undercutting U.S. efforts to prevent the expansion of Marxist influence in Central America.

At the same time, Ronald Reagan should point out that the expansion of the state sector in Mexico will make economic development more difficult, and cooperation with the U.S. government and the private sector less likely. Further, the U.S. cannot continue absorbing large numbers of undocumented aliens and will take decisive steps to end this situation, thus making Mexican economic development even more important.

One meeting cannot change fundamentally the course of U.S.-Mexican relations. However, by stressing the crucial issues of Mexican Central American policy, economic development, and immigration, and by impressing upon President de la Madrid the urgency with which the U.S. views all of these matters, small but significant modifications in Mexican policies might be obtained.

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