Mexico's startling economic decisions

by Tim Rush

On March 18, Mexican President Jose Lopez Portillo rose to make an impromptu speech to oil-workers gathered to mark the annual national commemoration of the 1938 nationalization of Mexican oil.

When he sat down a short time later, he had revealed a series of three decisions which collectively point the direction for the economic policies of the remainder of his term, which closes Dec. 1, 1982.

They were 1) that Mexico will begin further expansion of its oil production capabilities, beginning with a 10 percent increase above previous ceilings set for the end of 1980; 2) that Mexico will not enter the General Agreement on Tariffs and Trade (GATT); and 3) that the government will launch a new, "globalizing" attack on Mexico's serious and worsening agricultural situation, to be called the Mexican Food System.

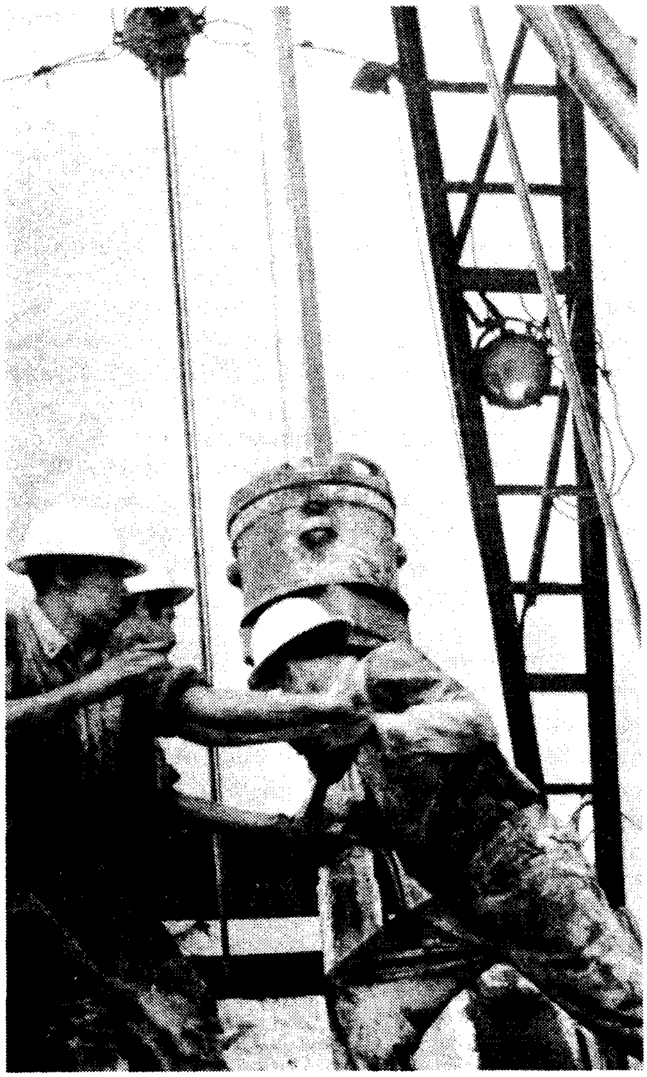
All three decisions had been hotly debated in Mexico for months; and the first two had been the subject of extensive speculation in the foreign press.

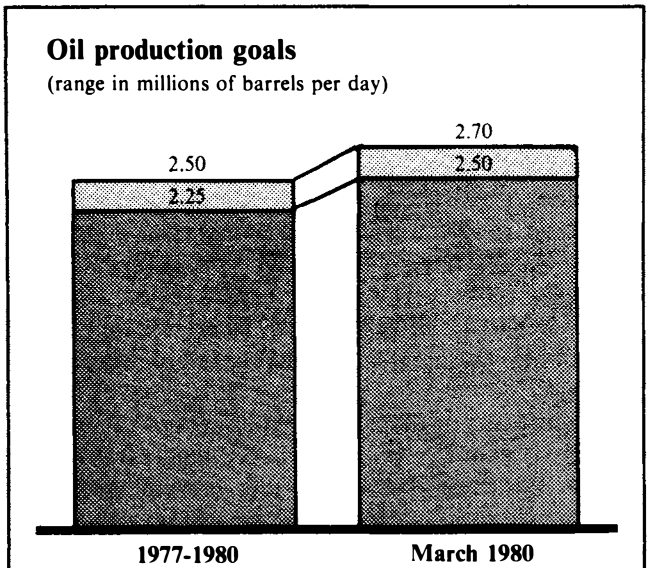
The thread unifying the three decisions is actually a reassertion, in new terms, of the fundamental tenet of the administration's economic policies from the beginning: use of oil to convert Mexico into a modern industrial power-house, with attendant upgrading of the cultural level, skills, and living standard of the labor force.

This was clearest in Lopez Portillo's insistence that the "road to controlling inflation is through more production, not through cutting demand." Mexico was hit with 20 percent inflation the past year and may face 25 percent this year at current rates. Yet Lopez Portillo refused to knuckle under to the substantial voices, both on the environmentalist left and the Friedmanite right, who were promoting keeping the oil in the ground and joining GATT as "anti-inflation" measures. By keeping oil production a flexible instrument at the service of rapidly increasing domestic demand and oil-for-technology deals abroad, and by sticking to Hamiltonian principles of protection of new or underdeveloped industries, he kept the full policy commitments in place behind the ambitious industrialization drive.

For close watchers of Mexico, the signals were already in the wind with the February 13 announcement, little commented upon either inside or outside the country, that the government had given the green light to the $2 billion second stage of the giant Las Truchas steel complex on the Pacific Coast, after three years of tenacious opposition from the IMF.

Besides this fundamental economic definition, the March 18 decisions are important politically in shaping the battle over who will be Mexico's next president. All three points were fought out at length within the Mexican cabinet—which traditionally is the selection pool for Mexico's next president—and the "lineup" on each is therefore of particular political relevance.





I. OIL

The President justified his decision to raise the 1980 oil production ceiling from its previous 1980 "platform" of 2.25 million bpd to 2.5-2.7 million bpd—approximately a 10 percent increase—on the grounds that increasing Mexican domestic oil consumption demanded it. He announced no increase in the slated level of exports, 1.1 million bpd.

It was a politically astute way to break a major political and psychological barrier. For almost two years the current ceiling had been widely advertised by the government. The strategy was both to shed some of the heat from oil-desperate foreign clients, such as the U.S., and to insulate the domestic economy from an unmanageable influx of oil revenues which could cause, in a famous phrase of López Portillo's, "economic indigestion." After mid-January press leaks that a possible revision of the ceiling was under consideration, Mexico's anti-industrial left in particular geared up an effective propaganda campaign portraying any increase in oil as a sell-out to Uncle Sam. Figures widely quoted in the press suggested a possible rise to 3.5 or 4.0 million bpd as "the CIA's wishes."

By going with a much smaller increase and one ostensibly geared to domestic consumption, not increased exports, López Portillo has deflected a lot of this heat. Yet the policy is a definitive rejection of the "conservationist" approach, and may well lead, in a new regime of "mini-increases," toward late 1982 production levels close to those mooted in the press. The decision also represents a clear victory for Petroleos Mexicanos director Jorge Diaz Serrano, in the face of almost unanimous opposition to breaking the 2.25 barrier on the part of the rest of the cabinet.

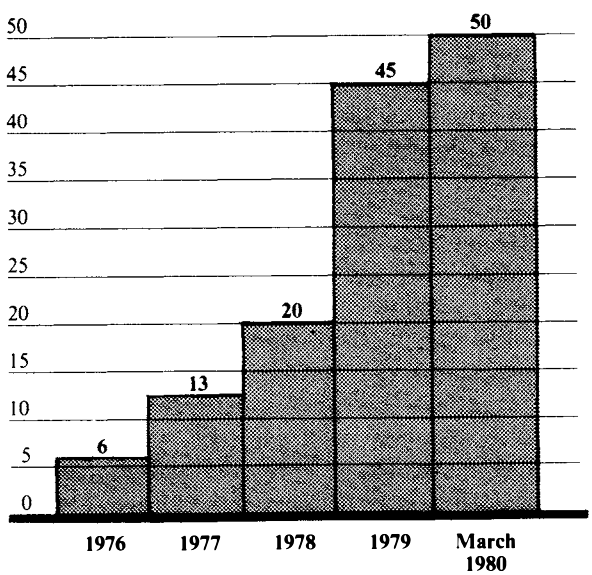
But the decision is far from capitulation to U.S. pressure. It is true that America currently receives the lion's share of Mexico's exports. However the new margins of Mexican production are not going in the same proportion to the U.S. The key factor here is Mexico's policy—as emphatically reasserted by Industry Minister De Oteyza March 19—that the oil exports "allow bilateral package deals involving transfer of technology and products in exchange for crude oil." It has never been U.S. government policy to promote such package deals with Mexico. Instead Washington has played games with "oil-for-food," "oil-for-illegals" and "oil-for-debt payment" pressure tactics. The countries which have gone along with the oil-for-technology focus—Oteyza mentioned Japan, Sweden and Spain among others—are getting the new contracts.

It is expected that López Portillo's mid-May visit to the core countries of the European Monetary System, France and West Germany, will mark a key consolidation of the Mexican approach. Recently, Jacques Cavet of the Bank of Paris called Mexico's industrialization the key to development of all Latin America.

Mexico is moving even more rapidly on the Asian front. Industries minister Oteyza will visit Japan, a leading "oil for technology" partner, on April 7. Less than a month later, Japanese premier Ohira will pay a state visit to Mexico.

Perhaps as a reaction to the reality that Mexico's oil increases remain firmly wedded to this oil-for-technology focus, U.S. government and British press sources antagonistic to the industrialization drive have begun to circulate the line that "Diaz Serrano really lost" the battle over oil policy. A Treasury official insisted to *EIR* late last week that this was the case. And this week's coverage in both the *Latin America Weekly Report* (published in London) and the London *Times* asserts that Carter policy and Mr. Diaz Serrano lost another round on this one. The thinking may be to create additional leverage for hard-line anti-Mexican policies in the U.S., especially in an administration to follow Carter's. For the time being, the principle of U.S. policy remains to prevent Mexico from using its oil for its development.

Increase in official proven reserve figures
(in billions of barrels, both oil and gas)



II. GATT

The decision not to enter GATT follows well over a year of government-encouraged debate in the country. During this time Mexican negotiators headed by top trade official Abel Garrido worked out special arrangements with GATT officials which would have allowed Mexico a relatively "soft entry" into the trade club, with up to 12 years to make full adjustments.

Lopez Portillo's "no" thus took many by surprise. It was clear from the depth of debate within Mexico and the cabinet that the government's negotiations were not simply one of "going through the motions." What, then, swung the decision toward the negative in the final deliberations?

All indications point to a judgment that the key new industries, especially capital goods, which Mexico has built into its National Industrial Development Plan, would be choked off by entrance into GATT. It is these industries, tied in many cases to Mexico's "industrial port" strategy, which are projected as the backbone of intensified future exports of manufactured goods. The thinking here closely correspond to Alexander Hamilton's trade protection arguments 200 years ago.

Critics argued that staying out of GATT would protect inefficient consumer goods producers in Mexico hiding behind favorable tariff protection. No, said the President; measures will be taken outside GATT, to cut down this inefficiency.

Bolstering the "no" side was the undeniable success of Mexico's bilateral "oil for technology" negotiating focus. "Will we be able to use our oil as an effective negotiating weapon under GATT?" asked the opponents.

The final "pulse-taking" was close, however. Substantial layers of the government bureaucracy, together with some of the associatons representing reporters, commerce, and large industry, favored entry. Ranged against the move were small and medium industry, led by the CANACINTRA industrial federation, and a variety of nationalist and left economic and political organizations.

The intensity of the faction fight over GATT was not new for Mexico. In the period immediately after World War II, the issue of Mexican membership in GATT mushroomed into a major political controversy when it became clear that the nation might be obliged to admit imports that could compete with the output of fledgling domestic industries. During the controversy, the CANACINTRA, one of the strongest "chambers of commerce" in any nation, came into being to lead the battle against GATT membership. It consists of the industrialist and entrepreneurial layers who remain to this day identified with opposition to GATT and any other international agreements that could harm or limit the development of domestic Mexican industry.

The vote in Mexico's eight-man "economic cabinet," according to Mexican political columnists, was split down the middle. Among those reputedly in favor: Commerce, Interior, and Planning; among those opposed, Industry, Finance, Foreign Affairs, and Labor.

U.S. reaction

Washington anger at the Mexican decision (see below) is apparently intensified by the collapse of a larger North-South strategy. As a Treasury official told *EIR* this week, Brzezinski in particular viewed Mexican entrance into GATT as a "strategic issue," because "Mexico is so important for other Third World countries. Mexico is the swing country, we were looking to it to bring in Colombia and some other Third World countries in Latin America and Asia still not in GATT."

As is documented below, Washington plans to keep "a low profile" on its opposition to the Mexican decision, but spokesmen for the Carter administration are already broadly hinting that if the Mexicans don't change their mind, the U.S. could launch trade war against them.

But other opinion is not so ruffled, it appears. Though the EEC Commission is "concerned" over the Mexican actions, according to Treasury sources, French and Japanese officials in Mexico have told *EIR* that their countries are not particularly upset. And in the U.S. numerous large manufacturing firms with affiliates in Mexico are just as happy Mexico is staying out—it keeps their domestic Mexican market more secure.

Within Mexico, the traditional expressions of support for a President's decision—now that it's made—are coming in from all sectors, including many who favored entry. Parallel to this is the growing recognition that the high interest rate policies of the U.S. Carter administration are the real issue Mexico must face at this moment. GATT is a secondary matter. The Mexican stock market has tumbled even further than the New York stock market this month in reaction to Volcker. Industry Minister Oteyza stated last week that for every percentage point Volcker hikes U.S. interest rates, Mexican rates shoot up 1.5 points. The head of the Mexican Bankers Association, Rolando Vega, confirmed a day later that an "interest rate war" is on in Mexico, and that the domestic banks are studying raising interest rates on credit cards.

III. FOOD

The third of Lopez Portillo's decisions to launch what he termed the Mexican Food System, is at once the least defined and perhaps the most important of them all. It is a simple fact: no nation can develop with the burden of a large, backward farm sector.

Throughout his term, the President has focussed national attention on the two "pillars" of his administration's economic policies: energy and agriculture. Yet at this midpoint in the term, Mexican agriculture is as much a failure as energy production is a success.

The announcement of the Food System, or SAM in its Spanish acronym, is a recognition that this imbalance must be righted.

Lopez Portillo spoke only in broad outline, however, about the new effort. He hinted at more direct involvement of the state in agriculture affairs. Heretofore, the infrastructure and industrial areas of the economy have followed the model of a "mixed" public and private sector economy much more than the agricultural sector.

He spoke of "globalizing" coordination between the different ministries dealing with agriculture—which includes Commerce, Finance and Agrarian Reform as well as the Agriculture and Water Resources Ministry. He called for national self-sufficiency in food production.

This last is clearly the most important of the goals, and the most difficult to achieve.

In the course of the past decade's miserable agricultural performance, Mexican imports of basic food grains rose steadily to the current 1980 projection of 7 million tons—fully 33 percent of Mexican consumption.

In Lopez Portillo's September 1979 State of the Nation address, he scoffed at those who worried about this import bill. The value of agricultural exports more than make up for the cost of imports, he noted.

But increasing concern that the United States could eventually use a food cut-off as a devastating "food weapon," combined with further deterioration of the agricultural situation, apparently caused the shift in strategy.

The big unanswered question is whether the SAM will effectively build national support for a high-technology, mechanized approach in correspondence with the industrialization effort in other areas of the economy; or whether the labor-intensive, low-efficiency models of the World Bank will predominate. The policy fight has already led to a shake-up in the Agriculture Ministry.

Documentation

President Lopez Portillo explains the reasons

Lopez Portillo announced his major economic decisions at the national commemoration of the March 18, 1938 nationalization of Mexican oil, held this year at a rally of oilworkers in the city of Guadalajara. Here are the highlights.

On energy

I now ask you to convert [the previous production goals] into a consolidated support platform which permits us, between now and 1981, to increase our supply capacity to meet the country's growing needs and to be able to guarantee exports of 1.105 million barrels per day....

We have always said that we would have to reach 2.25 to 2.5 million bpd by 1982. We will achieve that level this year. I ask for your efforts to give the country the flexibility of an additional 10 percent so as to guarantee export supplies and enable our country to respond to any problem or danger which comes up.

What does this mean, fellow workers? This means we will have sufficient resources for our own economic self-determination. With what we call "a consolidated platform" of 2.5 to 2.7 million bpd, with this 10 percent extra effort I am asking of you, we can liberate domestic resources until now destined for this great national effort, and we will obtain enough foreign exchange to begin reaching some of the other priority goals which, unfortunately, we have not yet managed to do.

On food

From this meeting I call upon every Mexican to establish a Mexican Food System on a solid footing. This is an all-embracing program....

The objective of the Mexican Food System is to reach self-sufficiency in each of the key subsystems of national nutrition: grains, edible oils, fruits, vegetables, meat, fish, milk, and eggs. We are going to organize the country to produce food during a dramatic period in which it is demonstrated that the defining strategic force of the superpowers lies precisely in the food they have learned to grow. It would be shameful for us, having solved the energy problem, to fall into the trap of losing out by the cravings of our mouths. We will not tolerate that.

We (in the state sector) are going to share the risks in order to induce technological changes and support a higher order of peasant organization. We are going to give preferential incentives to the food processing industry. We are going to set up a distribution network in which we can begin with the harvest and storage and go all the way to the retail level.

On inflation

We are conscious that a sustained effort at 8 percent growth necessarily results in inflationary pressures in a world in which inflation is generalized. It is not a question of inflating the economy, but of controlling it, starting from the understood possibility of controlling inflation; *not* by the road of cutting demand, but through increasing productivity.

On GATT

A responsible group of Mexicans has suggested that the country join GATT in the process of trade liberalization. These Mexican officials have carried out their efforts in hhe most honorable way and have negotiated the best possible agreement. It has been submitted to national consideration and, through the sectors of the governments, we have heard the contradictory opinions of the interests which legitimately should express themselves on something as important as the destiny of Mexico in world trade...

After receiving diverse and contradictory opinions, I have decided that it is not the right time for Mexico to enter that trade system. ...Many questions have yet to be answered. These uncertainties could well compromise the objectives of our world plan and we prefer to advance in the conception of a more just new economic order even though we should have to go through bilateral negotiations outside of GATT, as we have done until now.

Documentation

Pemex's Diaz Serrano: The status of oil production

The following excerpts from Pemex Director Jorge Diaz Serrano's March 18 address summarize the geographical prospects for Mexican oil and gas expansion, and the benchmarks achieved in Pemex's extraordinary development effort so far.

On November 30, 1976 our proven petroleum reserves were announced to be 6,338 billion barrels. I am pleased to inform you that our proven petroleum reserves are now up to 50,022 billion barrels, an increase of 690 percent.

This new figure puts Mexico in sixth place in the world. It would take 64 years to drain our reserves at current production rates....

The Gulf of Campeche is the most important new oil field in the world, (and) is producing more than 500,000 barrels per day of crude....

The biggest field in Mexico today is the Antonio J. Bermudez field, which is producing 600,000 bpd of crude.

Six gas fields have been found in the Sabinas Valley. Its wells average 10 million cubic feet per day, a high figure compared to gas wells in the rest of the country.

The integral development of the Chicontepec area has been planned to promote Mexican production of accessory, metalworking and electrical equipment, chemicals, and other goods which will come on stream to the degree permitted by national demand for them.

Gas and oil production

Current gas production nationally is 3.5 billion cubic feet daily of which 7 percent is flared, mostly offshore. We have already begun building the pipeline to bring the gas ashore and expect to be processing it and pumping it into the Mexican natural gas system within a year. By this means we will be utilizing fully 97 percent of this important hydrocarbon.

Our oil refining capacity has increased by 31 percent and our capacity of separating liquids from natural gas by 78 percent in the last three years. Thus Mexico is among the dozen biggest oil refiners in the world.

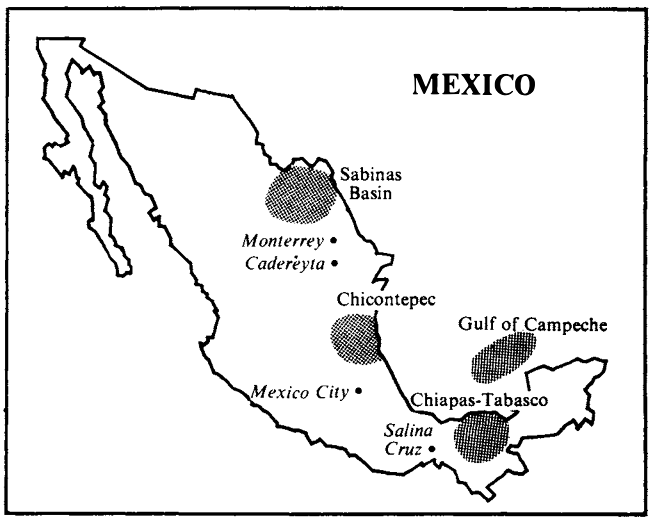
Exports and export policy

Crude oil predominates in the structure of our petroleum exports. Crude exports increased in volume by 560 percent over the last three years, from 34.5 million barrels in 1976 to 194.9 million barrels last year. Export of marine crude, called by the international trade name of "Maya Crude," began in November, 1979, at a price slightly below that of light crude....

We reiterate that our policies of exporting surplus crude have been oriented towards diversifying our markets. Our crude remains totally outside of speculation. We respect the volumes and prices contracted and deal directly with refining companies of good repute. Our prices have always been above those of OPEC.

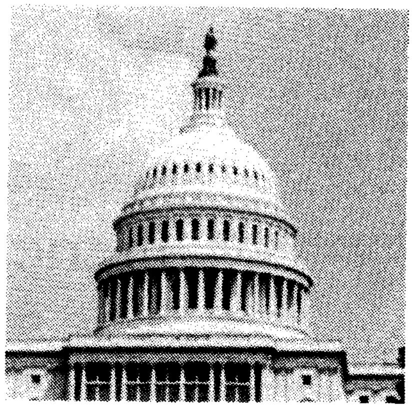
Mexico will not sell its natural gas to U.S. clients for a penny less than the highest price which U.S. companies pay for natural gas in comparable conditions from other venders. Mechanisms have been set up to guarantee this situation for Pemex....

We fully share the thesis that Mexico should not be an oil-producing country, but rather a country whose growing oil resources contribute to support economic development with liberty and social justice...



Documentation

Washington ponders trade war



The U.S. Departments of State, Treasury, Commerce and Labor met in a hastily scheduled session March 21 to begin preparation of an official U.S. response to the March 18 decision by Mexico not to join the General Agreement on Tariffs and Trade (GATT). Although officials stressed to the EIR *that the administration will "take a low-level profile for the time being," the Special Trade Representative's office is already drafting a legal memo outlining to Mexico the various trade weapons that the U.S. will now be "legally obliged" to invoke.*

In talks with the EIR, *this is what Washington is saying:*

Special trade representative's office

Now, I can say that we clearly had been in the position of expecting Mexican entrance into GATT. We are not overreacting, and we're looking at the thing carefully. But it certainly sounds like bad news, disappointing news. We had hoped they'd be coming in. One of the things we are checking is to see if it is true, that Mexico has said no not only to GATT but also to the nontariff codes multilaterally arranged during the Tokyo round. The significance of this is that we have some bilateral agreements with Mexico which are hinged to Mexican acceptance of these multilateral codes. It's a tentative agreement, whose terms have never been released, and in it we gave Mexico certain tariff concessions. All that is now in question."

Commerce Department, office of trade policy

"We were totally uninformed of the negative decision prior to the announcement. We knew it was a serious fight, that it was thrown into the cabinet for a key vote that would guide the president, but we haven't had good intelligence prior to when the announcement came out. We have had some comment from other trading partners, the EEC Commission, with indications of their surprise and concern as well. There is now a review going on across all the cabinet departments coordinated by the Special Trade Representative, with State, Kreuger, etc. There was a meeting this morning (March 21) with State, Treasury, Commerce and labor and some others. But we want to communicate directly to Mexico, present to them the legal situation as we see it, what this means for us, what the law will now dictate for us. Agnew [Reuben Agnew, head of the STR] is in charge of preparing this, though it has interagency authorization and input. This will be gotten to Mexico first of the week.

Treasury Department

"It's really a step back, certainly in bilateral relations. We had all thought Mexico was serious about joining, and we aren't very happy. But we're taking a low-level profile for the time being, we'll take it slowly and then we'll meet with them in Rio next month. There's an Interamerican Development Bank meeting, and we'll use the occasion for separate bilateral talks, the NSC, State and the STR will be heading up the work on the response."

Senate Foreign Relations Committee

"The U.S. of course was pushing Mexico to join. But in Mexico, commerce and industry was opposed. So I'd have been more surprised if Mexico had joined. But the whole way they negotiated and then didn't go in is unprecedented kind of behaviour. The reaction here is real disappointment. What this shows is that Mexico has more breaks than anyone, yet every time these trade issues come up, it acts as if it were singled out for abuse. The preferences we now give Mexico on a bilateral basis, like around the border, could be directed to the Caribbean and elsewhere. I'm not saying we should do this, but this is what Mexico doesn't seem to appreciate."