López Portillo rejects Hong Kong economics

by Timothy Rush

In his fifth State of the Union address, delivered on Sept. 1, Mexican President José López Portillo reasserted Mexico's development strategy in the face of insistent demands from abroad that Mexico adopt a "Hong Kong" model. He dwelt at length on the accomplishments of Mexico's decision to invest oil income in heavy industry, capital goods, and productive technologies throughout the economy, telling his countrymen that it is now time to "consolidate" these gains under a system of centralized economic direction from the government, in full partnership with the private sector.

Probably the most explicit call to date for Mexico to dismantle this development effort had appeared a week earlier in the *Wall Street Journal.* Karim Pakravan and Melvyn Krauss, an associate of Milton Friedman at the Hoover Institution of Palo Alto, wrote that Mexico's "model of economic development should be the four thriving economies of the Pacific Basin—Hong Kong, Singapore, Taiwan and South Korea. These economies have prospered by importing labor-intensive industries (textiles, plastics, toys and so forth) that take advantage of, and give employment to, their vast labor resources."

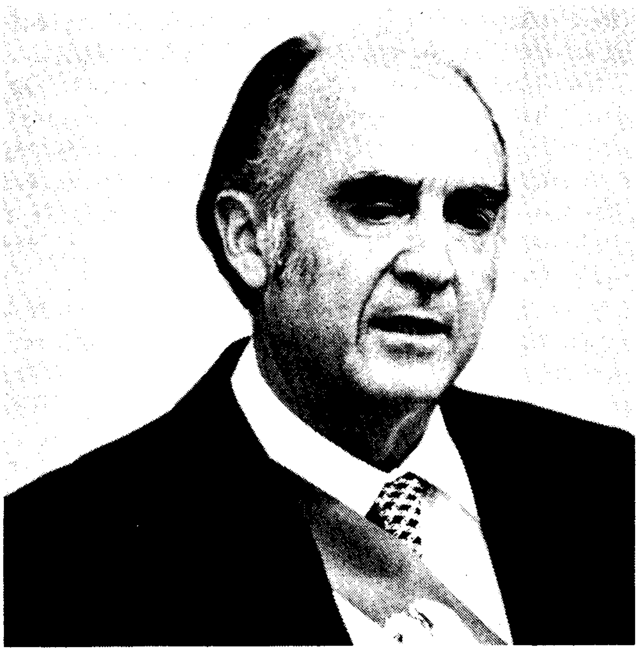
In contrast, "Mexico identifies its industrial aspirations with heavy and capital-intensive industries." This hardly makes sense, concluded Krauss and Pakravan; "Converting expensive oil into cheap steel seems a poor bargain today, even if Mexico could produce steel efficiently. There is little sense in having showcases of modern, labor-saving production techniques that are unsuitable for a restless population."

López Portillo did not refer explicitly to the *Wall Street Journal* article in his fifth "Informe," as the traditional Mexican State of the Union address is called but Industry Minister De Oteyza did, and hardly in appeasing terms. Asked about the *Journal* manifesto Aug. 29, De Oteyza stated angrily "We will make ourselves independent by the route of capital goods production, and not as the industrialized countries would like—that we limit ourselves to producing consumer goods and that they sell [us] machinery and equipment."

This powerful reassertion of Mexican policy, in the face of several months of economic warfare against its peso and oil export levels, bears particular importance for the North-South summit at the Mexican resort of Cancún on Oct. 22-23. The code name being given by neo-Malthusians of the U.S. Friedmanite stripe to a policy of Third World economic devolution and genocide is precisely "the Hong Kong model." In its Latin Americanized form, the same policy is being pushed by the Rockefeller crowd as the "Jamaica model." The same population control policies are also being peddled to the developing sector under an "anti-imperialist" label by the forces associated with the World Bank's Brandt Commission.

López Portillo's and De Oteyza's statements mean that the "Mexican model" remains a rallying point for forces worldwide who want to see combined and real economic development of both the industrialized and developing nations, on the basis of high-technology development of the Third World.

This is good news for the United States. In bilateral terms, it means Mexico remains in the field as the premier high-technology market for U.S. goods abroad. In terms of Cancún, it gives American traditionalists a new op-


José López Portillo

portunity to move against the "population control" criminals who are dictating U.S. State Department policy under the auspices of Secretary of State Haig and Undersecretary James Buckley.

However, the Reagan administration seems to be courting disaster precisely in this most promising area of U.S.-Mexico
intent on reproducing every failure of the Carter administration policy. As is demonstrated by *EIR*'s interview with Commerce Department official Waldmann below, the administration is fully committed to the precepts of the Hong Kong model as they apply to Mexico: no to heavy industry, and no to government direction of the economy for integrated industrial development. Waldmann says the United States will be seeking "frank discusson" with Mexico on this "problem" at the first full convening of the new U.S.-Mexico
mission Sept. 21-23. Is there any difference between this attitude and former Energy Secretary James Schlesinger's famous dictum that "The U.S. will not permit a Japan south of the border"?

In the following *EIR* special package, we let President López Portillo speak for himself in presenting a Mexican economic status report, as he delivered it in his State of the Union address. We follow with an exclusive interview with one of Mexico's most respected business leaders, Ernesto Amtmann Obregón, who outlines what Mexican business wants from the United States, and the reasons for his firm support for the López Portillo strategy. And we also present Commerce Assistant Secretary Ray Waldmann's assertion to *EIR* of why Mexico's focus on heavy industry is wrong.

Documentation

From the State of the Union message

The following are excerpts from Mexican President José López Portillo's fifth State of the Union Address delivered Sept. 1, taken from the English-language Mexico City daily, The News.

Disorder in the world economy and its many problems have put to the test the planned effort that this administration has made since 1976 to carry forward our national enterprise, which is embodied in the Constitution of 1917. . . .

The domestic product, particularly in industrialized countries, is not growing. This year it will increase by about 1 percent at the most. In those countries there is unemployment, generalized inflation continues, the flow of trade has grown weaker, and great confusion and maladjustments prevail in the trade balances between nations. The prices of both agricultural and mineral raw materials have suffered greatly from this disorder and from speculation. At the same time, the dollar has been revalued owing to interest rates that have reached levels unprecedented in modern history, which further affect financial markets, currencies—even the strong ones—and oil prices. . . .

This world crisis cannot be explained as a transitory or circumstantial event. It results from the deterioration and inadequacy of the old international order that came into being at the end of the Second World War.

Given this severely imbalanced framework of the world economy, we must recognize—despite those who dramatize their fears by shouting them from the rooftops and see only tragedy ahead, even in the political future—that Mexico's development has been an exception whose true significance we have not all appreciated. . . .

Let us call to mind—not as a fanfare of triumph, but as an objective portrayal of contrasts—that Mexico will achieve for the fourth consecutive year an average annual growth rate of over 8 percent, which is unprecedented in our history and is far from common in today's world. Recent national accounts now indicate, with all methodological and statistical objectivity, that we grew by 9.2 percent in 1979 and by 8.3 percent in 1980.

Our growth has been directed, and is designed to create jobs and to improve the distribution of income. . . . I am not saying that we have solved every problem, far from it. Nor that all of us have fulfilled our duties to the nation. I am saying that we have made progress.

Planning development presupposes the regulating role of the state in the different processes involved, in which it acts as the authority. . . .

On interest rates

The policy of flexible interest rates and new financing instruments—commercial paper, convertible debentures, and Treasury bonds—has enabled us to confront the changing economic conditions that prevail in the world, especially the absurd interest rates. . . .

The selective channeling of credit has continued to serve as a valuable instrument in orienting production according to major national priorities. In 1980, credit to agriculture rose by 61 percent. . . .

An unprecedented effort is being made to focus major attention on the production of basic low-cost consumer goods. With the aim of stimulating the supply of priority goods and services in the country, it was decided not to raise the interest rates at which government funds and trusts lend to borrowers, maintaining an average level of 18 percent. . . .

In a disorderly market, we have managed to avoid both erratic fluctuations of the exchange rate and speculative maneuvers. In the face of a dollar revalued by the monetarism of U.S. credit policy, the peso has continued floating and slides to adjust to market realities. Meanwhile, its value rises vis-à-vis other currencies, and is benefited by the price of oil, which is quoted and paid in dollars. . . .

Industrial growth

From 1977 to 1980, Mexico's industrial production grew an average of 8.1 percent per annum, a rate that compares very favorably to the growth rates of industrial economies.

Thus, excluding construction activities, industry now provides employment for almost 25 percent of the remunerated economically active population and contributes about 35 percent of gross domestic product.

In 1980, the industrial product, valued at 1975 prices and defined as the sum of what is derived from mining, petroleum, manufacturing, and the generation of electrical energy, rose 10 percent. Mining production went up approximately 6 percent, an extraordinary amount for this field of activity. Production of petroleum, the catalyst of growth, rose almost 30 percent, manufactures rose 6 percent, and electricity, 7.1 percent. . . .

In the present context of perhaps the worst international economic crisis since the Second World War, an excessively liberal foreign trade policy was particularly risky. We therefore decided to strengthen our trade policy measures in order to ensure adequate growth of the industrial sector and of the economy as a whole. . . .

The magnitude of the resources managed by the parastate sector confers upon it a key role in economic growth in the years ahead. . . . Considering the criterion of financial profitability, the preliminary results for 1980 show that various parastate enterprises, after a number of years in the red, have shown a profit. We suggest that you consult the annexes.

There is a tendency, however, to reduce profitability and efficiency criteria for public enterprises to financial terms as if they were private enterprises, when in fact they fulfill a strategic and social function in providing subsidies and guiding economic policy. . . .

Within the framework of the objectives and goals of federal government plans, the development of the oil industry became the strategic catalyst of our economic recovery during the first years of this administration.

Since 1976, proven hydrocarbon reserves have increased tenfold; output has tripled; exports of crude have grown at exponential rates; refining capacity has increased by some 50 percent during these five years, and the production capacity of basic petrochemicals has practically doubled. . . .

Energy policy

Increased output of hydrocarbons has not only created greater demands for capital goods, technicians, and workers, but, through exports, has also provided the funds to purchase from abroad the complementary technology and equipment that will enable us to achieve integrated growth. This is what we mean when we point to the capacity for financial self-determination that hydrocarbon exports afford us, and when we point to oil as the "spearhead" of a program that leads to transforming nonrenewable resources into permanent sources of wealth and employment. Both these concepts as originally conceived have properly fulfilled these roles. We reiterate and confirm the fact that Mexico is not a "petrolized" country, nor are we in the process of becoming one. Oil accounts for barely 7 percent of domestic production—that is for each peso the country produces, only 7 centavos are derived from oil, while in "petroleum countries," 46 centavos of each peso of production can be attributed to this product. . . .

On March 18 of this year, it was reported that proven reserves had risen to 67 billion, 830 million barrels. Today I have the satisfaction of informing the nation that proven reserves now stand at 72 billion barrels, while probable reserves have reached 58 billion, 650 million barrels, and the volume of potential reserves which include the foregoing plus accumulated output to date, has risen to 250 billion barrels.

A year ago, Mexico's oil reserves occupied sixth place worldwide in volume. Today, they are in fourth place and they continue to grow.

We can state with all assurance that the Gulf of Campeche, where oil is being pumped, and the Chiapas-Tabasco region, also in production, are actually part of the same geological phenomenon. They are linked and form a single major oil field. In Baja California we are drilling development wells and there is clear oil potential in a large part of our territory. . . .

In view of these prospects, we have sustained the thesis of programming rather than improvisation; the long term rather than the short term; economic cooperation rather than market speculation; and guaranteeing supplies rather than offering a bargain. . . .

Let us remember that we never offered a rose garden, provided by oil. We said, and this is being borne out, that oil would give us financial self-determination, that it would be the pivot and the catalyst of economic development. . . .

Doctrinaires, without a social conscience and securely entrenched in their comfort, are determined that inflation be fought by raising unemployment, so that those who do not work do not consume. In Mexico, where this is a chronic problem, such action cannot and should not be taken. These are longer, more difficult, but also more just roads to follow, and these are the ones we have chosen: to fight inflation by producing more and by creating more productive jobs. . . .

By this means and for this reason, the state maintains its union spirit and its unconditional respect for the right to strike. This is not claimed
stressed as an integral part of the system. . . .

A new cold war

We are living in a period of turbulence, backsliding, and even military confrontations. A new cold war climate has been created similar to the one that dominated in the 1950s. We are faced with a frankly dangerous step backward on the road to détente, which had been gaining ground during the past two decades.

After the death of SALT II, it will be very difficult to negotiate SALT III, which was to have represented the beginning of a process of actual reduction—not just of limitations—in nuclear weapons. There is every indication that the hoped-for agreement will be replaced by the development, construction, and storage of man's most ominous investment: the neutron bomb. . . .

In international life there are no problems that are not part of the shared responsibility of states, nor are there blind forces of history that have nothing to do with the will of nations. We therefore believe that relations between Mexico and the United States should break out of the traditional mold and seek common criteria and solutions based on mutual respect. With this objective in mind, we met twice with the President of the United States.

On both occasions we had frank and cordial talks in which we courteously and firmly explained Mexico's position as regards the complex nature of our bilateral relations and especially as regards the daily problems that naturally arise from our proximity and in the region immediately surrounding us. . . .

Consolidation of achievements

We divided the six-year term of office into three two-year periods—restoration of the economy, consolidation, and accelerated growth.

With people's confidence we were able to restore the country's economy and vitality; and the combined impetus of the public, social, and private sector had such a rapid effect that even before we had consolidated the economy we were already beginning to grow at a rapid pace. As we progressed as a nation, we became aware of all the insufficiencies that had been brought about by stagnation and the deficiencies of the international economy.

In the face of external realities, whose internal effects we are still powerless to control, and of the eleventh-hour problems largely stemming from harmful monetary measures taken abroad, we have adjusted our plans with the flexibility provided by their own rationality and objectivity, without affecting either our priorities or our intention to produce more by creating more jobs. In the last two years of this administration, particularly in the period that still remains, we shall make an effort to consolidate what we have already accomplished, which has now become intermingled with accelerated growth. . . .

The more I perceive the world's contradictions and the reality of the absurd, the more I admire the genius of our forefathers in resolving such contradictions and subjecting such absurdities to reason, through our basic law, the Constitution. Exceptionally valid, and the creation of the Mexican Revolution, it is still not being fully complied with, not because of the precepts it contains, but because of our shortcomings. For it is both a standard and a channel for our own contradictions that institutionally enables us to aspire to what is desirable, attempt what is possible, and demand what is necessary. Only in this manner may we preserve permanency in the midst of change and remain as Mexico in the world and not as a leaf blown by the wind amidst the shadows of history. . . .

We have history, we have destiny, we have pride and we affirm our dignity. We have contributions to make to the world and we are open to accepting from the world what it has of value, in an unending search for the universal perfectability in which we believe, founded necessarily on equality, freedom, justice, and peace.

In a word, we have Mexico, and all of us, together with our children, are and will continue to be, Mexico.

Interview

Commerce's Ray Waldmann talks about bilateral trade

Assistant Secretary of Commerce for International Economic Policy, Raymond J. Waldmann, outlined for EIR*'s Stanley Ezrol on Aug. 24 how he sees conflict developing with Mexico over the Mexican government's efforts to make the nation into a fully integrated industrial power.*

Ezrol: How do you see U.S.-Mexico trade developing?
Waldmann: Very favorably. It's becoming a major trading relationship for the United States. I believe Mexico is now our third largest trading partner.

Ezrol: You are involved in the U.S.-Mexico Trade Commission, which was set up during Mexican President José López Portillo's visit to Washington in June. In the context of that commission, have the Mexicans made any import requests, particularly in the area of capital goods?
Waldmann: We haven't yet seen any specific such requests. In terms of the flow the other way, there is already a process for the admission of certain Mexican products under the Generalized System of Preferences. That process of review of GSP requests would continue as it has in the past . . . not be overridden by the joint commission.

Ezrol: What will the joint commission be looking at?
Waldmann: You have a large number of issues: the Mexican development plans and domestic laws affecting their subsidized exports. Our countervailing laws will affect Mexican trade. There are tax problems. There are issues with the recent import-licensing program which the Mexicans have just expanded; visa problems; border industry problems.

Ezrol: How will we approach the question of Mexican export incentives and their CEDI program [a form of tax rebate system for exporters]?
Waldmann: Our basic policy is to bring Mexico under the disciplines that GATT countries are subject to. That, I think, is a useful long-term goal for our relationship with Mexico. We propose to discuss their CEDI system and our countervailing laws at this first session, and perhaps start a process of mutual accommodation.

Ezrol: What do you see as the major potential stumbling blocks in trade relations?
Waldmann: Mexico is going through a rough economic and financial time right now—the government is running a tremendous deficit and they have problems of balance of payments—and rather than open up their economy they have tended to close it. I think that, of course, causes us a major problem. They are not relying to the same degree we would on market mechanisms.

Ezrol: López Portillo has pointed to the problem of continuing high interest rates in the United States.
Waldmann: I have not yet seen or heard from Mexicans that they are particularly troubled by high interest rates. As I recall the Mexicans have traditionally had high interest rates in their own domestic economy.

Ezrol: In the long term, do we see Mexico developing as a competitor to the U.S. in such areas as auto production and high-technology machine production? Or do we see it as in some way complementary to the economy of the U.S.?
Waldmann: I think if natural forces are left to take place it will develop in a complementary fashion. What causes it not to be complementary is the intervention of government decision-making which forces an economy into a straitjacket. It says, for example: "We must have a steel industry of our own even if it's a higher cost industry," or "We must have an automobile industry of our own even if it's at higher cost." Those solutions would not necessarily be those of the market. One of the things we'd like to develop over the course of the life of the joint commission is a frank discussion in this area. . . .

We have to find a way to let the market forces in both countries seek their own level, find their own way. I wouldn't say that Mexican industry has been put in a straitjacket, but clearly that potential always exists if you have a policy of central direction and of government guidance of industrial policy.

Ezrol: Isn't this very much like the point of view which Adam Smith used against the development of manufacturing in the United States?
Waldmann: This is not the right administration to talk about Adam Smith in because there are people in the White House who wear Adam Smith ties. The British policies of the late 18th century with respect to manufactures in the U.S. were wholly regressive. They restricted manufacturing. We're not talking about restricting in Mexico at all. We're talking about the way in which it develops—whether products made in Mexico will find markets in the U.S. If they are conscientious in developing products which are direct competitors with the U.S., then the problem is going to be harder than if they develop complementary industry.