Mexico, banks sign silly debt deal as economy totters on the brink

by Peter Rush

Top Mexican and U.S. officials made some of the silliest statements of their careers, as they celebrated the signing of Mexico's vaunted "Brady Plan" debt deal on Feb. 4. The purple prose spouted in Mexico City on that occasion did not succeed in diverting attention from the impending crisis of Mexico's financial and economic situation, nor from the reality that the debt deal means very little—to Mexico or the banks. Strikingly absent from reportage on the signing ceremony were statements from any of the senior bankers assembled for the occasion, presumably because they chose to keep their more deprecatory evaluations to themselves.

To listen to Mexico's chief debt negotiator Angel Gurria, U.S. Treasury Secretary Nicholas Brady, and Mexico's President Carlos Salinas de Gortari, one would think that Mexico had managed to end almost a decade of hemorrhaging more than $10 billion a year in net capital exports, in the form of interest payments on its more than $100 billion foreign debt—an astounding rate of outflow, almost double, in relative terms, the reparations forced on Weimar Germany by the Versailles Treaty after World War I, which collapsed Germany into hyperinflation in 1923 and led directly to the Nazi seizure of power.

Gurria quipped, "We are beginning the period of life after debt in Mexico." Brady waxed even more eloquent: "Mexico is on the move again. Jobs are being created. Flight capital is returning. Investor confidence is growing. In short, a new dawn is rising. Mexico stands as a beacon of hope for other debtor nations." The burden of foreign debt "has been removed from the shoulders of the Mexican people." He was echoed by Salinas, who intoned, "We consider finished and concluded today, the chapter of the negotiation of the historic debt," and urged investors to take advantage of the "new opportunities in Mexico's development." But the deeds did not match the words.

The fraud of the Brady plan

All three gentlemen were describing nothing more than a deal to reduce Mexico's net capital outflow by a mere 8-13%. Mexico's annual interest payments of about $10 billion will be reduced by around $1.6 billion, and Mexico will receive $488 million a year for the next three years in "new" money to be used to pay interest. This will leave Mexico's annual net capital outflow in interest payments at $8 billion a year (assuming interest rates don't rise) until 1992, and $8.5 billion thereafter. However, Mexico also put up $7 billion, most of it newly borrowed, against which it must now pay $700 million in additional interest to guarantee the deal. Mexico's true savings are therefore $2 billion minus $700 million, or only $1.3 billion, until 1992, and only $800 million thereafter. And the total debt, in this supposed "debt reduction" deal, won't fall at all: The $7 billion in reduced debt owed to the banks is completely canceled by the $7 billion in new debt for the guarantees.

International opinion concerning the utility of the deal has been split between those trying desperately to put new clothes on Emperor Salinas, and those willing to believe their eyes. International Monetary Fund Director Michel Camdessus, in the former camp, said, "The effect of the agreement today will be felt beyond the country. It will serve as an example to other countries struggling with debt problems." U.S. Commerce Secretary Robert Mosbacher, at a seminar in New York City on Jan. 24, praised Mexico as a world model of development and application of the "free market."

But most commentaries in the U.S. and Mexican press have finally noted what *EIR* said all along: that Mexico saves only a small amount of money, that it loses because most banks have stopped lending new money, and that it is unlikely that any other countries will receive—or want—the same treatment.

More to the point, Mexico's pseudo-stability seems to be fast fading. As if to punctuate the irrelevance of the debt deal, Mexico's repressed inflation began to accelerate in January. Held down artificially at the expense of the agriculture sector and of wage levels since late 1987, price increases, which had been averaging under 1.5% a month in 1989, suddenly rose 2.9% in the first two weeks of January, and more than 4% for the month as a whole.

And devaluation rumors are again sweeping the country, posing the threat of renewed capital flight and forcing interest rates up sharply, despite official denials that any such move is contemplated.

Salinas's 'magic' is not working

From the beginning, the debt deal was nothing more than Salinas's great gamble, the smoke and mirrors by which he hoped to pull off other operations to rescue Mexico's

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precarious financial structure. Mexico presently spends more than 60% of its entire federal budget on debt service, 75% of which is paid to domestic "investors"—in reality, to speculators—as payment of interest on the internal debt built up since 1982 in the effort to service the foreign debt.

One of Salinas's hopes for the debt deal was that it would sufficiently increase "investor confidence" in the economy that interest rates, running at 56% before the debt deal was first agreed to last July, would fall sharply. And so they did, down to a low of 33% in August 1989 (albeit still quite high compared to an inflation rate of less than 20%). But the rates have risen back to over 45%, and the pressure for them to continue rising is very strong. The Feb. 4 signing of the debt accord has had no appreciable impact on bringing them back down so far.

A second pillar of Salinas's strategy was to induce flight capital to return to Mexico. The government now claims that up to $3 billion of the money owned by Mexicans and invested outside of the country returned to Mexico during 1989. But virtually all of that went straight into government debt, at high interest rates, and not into building factories or otherwise contributing to the economy. The investors of that money today are part and parcel of the effort to drive up interest rates again, on threat of once again leaving Mexico.

The final pillar of Salinas's plan has been to attract large amounts of foreign investment. But in 1989, after one full year of his administration, total foreign investment registered in Mexico was somewhat under $2 billion, only slightly more than in 1988.

In fact, with the debt deal, under which almost all the banks once active in Mexico went for the exit door, in a strong vote of no confidence in the Mexican economy, Salinas himself was compelled to make a pilgrimage to Europe to beg, hat in hand, for European foreign investment. Between Jan. 25 and Feb. 3, Salinas visited Portugal, Britain, West Germany, Belgium, and Switzerland. According to Juan B. Morales Doria, president of the Mexican Business Center for International Affairs, Salinas went in the capacity of "trade promoter" and not "head of state" (for which reason he did not meet with Queen Elizabeth of Great Britain), seeking $5 billion worth of investments in the Mexican economy from Europe in 1990.

Poor Salinas! He was very well received by Margaret Thatcher—who likened his reduction of government spending for social needs to her own efforts in the same direction—only to have his trip to Britain blacked out completely by the major British newspapers. According to columnist Arturo R. Blancas writing in *Diario de Mexico* Jan. 31, "Not a single note was published in the seven major dailies of Great Britain" on his visit.

While some level of investment in Mexico from Europe as a result of his efforts cannot be ruled out, despite his attempt to portray Mexico as a virtual paradise for foreign investment, Salinas received no such commitments from European business during his trip.

Energy, agriculture in trouble

The bottom line is that Mexico since 1982, under Presidents Miguel de la Madrid and Salinas de Gortari, has slashed investment in basic infrastructure, energy, and agriculture, to the point that the country now needs tens of billions of dollars of investment in these areas to avoid catastrophe.

Roads and railroads are in a dismal state of repair, deprived of adequate investment for the past seven years. But even Mexico's premier sector is in trouble. *El Financiero* reported Jan. 24 that the production of crude oil from four out of five producing zones has fallen drastically, up to 52% in one zone. The reason: The government has refused to permit Pemex, the national oil company, to reinvest in modern equipment, or to spend for adequate exploration and development of new reserves of oil, preferring to spend Pemex's large profits to pay debt service.

Even more threatening to the country's economy, the nation's electricity grid is facing collapse. According to *El Financiero* of Jan. 30, 42% out of Mexico's 321 all thermoelectric plants in Mexico—135 all together—which were built before 1970, some 135 plants are entering their "critical stage" after 20 years of operation; now more and more of them will be subject to forced shutdowns as problems multiply and repairs become more frequent. According to the Electric Power Research Institute in the United States, Mexico's old plants cannot be relied upon for more than 50% of their rated capacity output.

Guillermo Guerrero Villalobos, director of Mexico's Federal Electricity Commission, estimates that Mexico needs $18.5 billion worth of investments in the electricity sector in the next five years. But the federal government intends to provide only 10% of that, or $350 million a year, with the rest supposed to come from private investment and the FEC itself. This $350 million compares with more than $8 billion to be spent servicing the foreign debt next year, and more than $25 billion to service the internal debt.

Agriculture has been even harder hit. The Secretariat of Agriculture and Water Resources reported Feb. 6 that 62% of the 28,000 *ejidos,* the Mexican cooperatives for which most peasant farmers work, have no infrastructure whatsoever, and 90% have no agroindustrial equipment. Only 39% use improved seeds. National investment in agriculture has been close to zero for years now. Production of food has plummeted, and food imports have risen sharply, though not enough to compensate for the decline in production.

The crisis in agriculture has created a health holocaust. According to Dr. Bartolomé Pérez Ortiz, head of the National Pediatric Institute of Mexico, a number of specialists are now claiming that 90% of the deaths of children under five years of age are due to malnutrition directly, or consequences derived from malnutrition.