Mexican farmers reject NAFTA as a colonial looting scheme

This written testimony was submitted by Alberto Vizcarra of the Permanent Forum of Rural Producers of Sonora, Mexico, to a hearing of the U.S. House Banking Committee on Nov. 8. The committee, chaired by Rep. Henry Gonzalez (D-Tex.), was taking testimony on the North American Free Trade Agreement (NAFTA). For more information about the Permanent Forum, see EIR, *Sept. 10, 1993, "Mexican Farmers Cry 'Enough' to Banking Usury."*

We want to inform the committee over which you honorably preside, about the grave situation in which the Mexican economy finds itself, particularly the sector which we represent, the agricultural producers of our country.

Throughout this year, especially since August, there have been mobilizations of thousands of Mexican farmers, unprecedented since the Great Depression, to halt the wave of foreclosures of which we have been victims. We Mexican growers have reached the conclusion that there is a deliberate plan, originating with the major financial interests headquartered in London and Wall Street, to eliminate 60% or more of Mexican farm families. This conclusion has been systematically confirmed to us by government and private banking officials in various meetings held with groups of farmers to try to reach a settlement with regard to the sector's arrears.

To demonstrate these assertions, we would like to begin with an analysis of the Mexican foreign debt which, in our opinion, is the keystone of the problem—along with the fever to "privatize" the public sector, to create derivative markets through the North American Free Trade Agreement, and the revamping of the country's financial system. Figuring in all of this are new financial arrangements between the Bank of Mexico and the United States Federal Reserve, which would eliminate both Mexican and American national sovereignty by fostering a gigantic and unregulated market of dollar-denominated credit outside the control of either government.

It is officially recognized that Mexico's foreign debt today is some $121 billion, representing an incredible increase of $27 billion in the past four years, since the end of 1989. This figure by itself demonstrates the failure of the "Brady Plan" to reduce the foreign debt, which in 1990 had been nominally cut by $6 billion, to $93 billion.

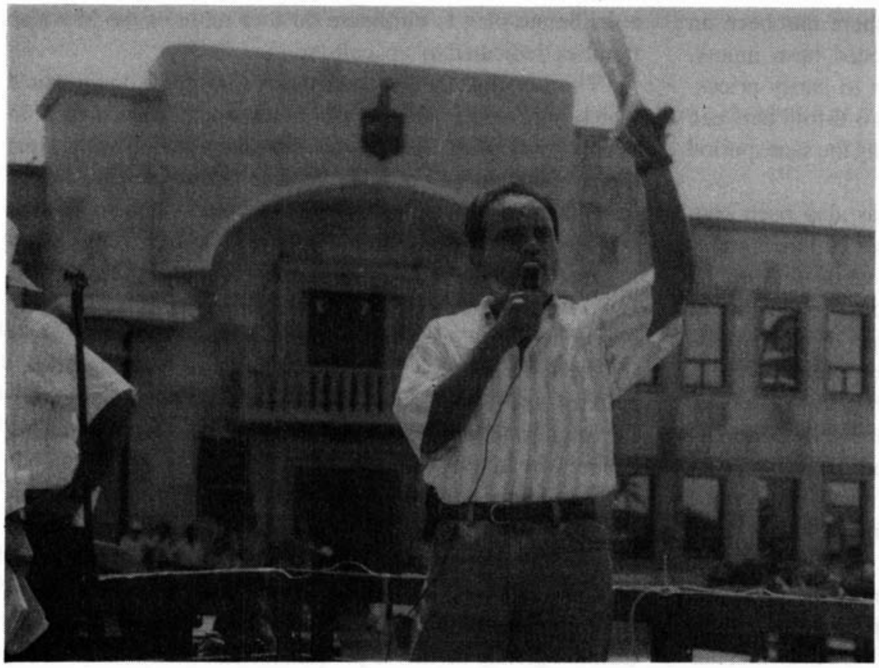
Mexico's massive indebtedness belies the statement made by President Carlos Salinas de Gortari in mid-1992 that "Mexico is going through a process of debt reduction" with the Brady Plan restructuring.

Let's take a look at the "debt reduction process" which has paradoxically led to the swelling of the Mexican foreign debt. In 1980, Mexico's foreign debt was $57.4 billion. Between 1980 and 1989, $96 billion were paid to service that debt—but by 1990 the debt had risen to $99.734 billion. Pure banking usury. What Mexico paid during that period totaled more than 165% of our 1980 foreign debt, and nearly 100% of our 1990 foreign debt.

In February of 1990, a $48.231 billion debt-restructuring package was signed under the Brady Plan, enabling Mexico to "save" the fabulous amount of $1.5 billion in interest payments. Presumably the U.S. Treasury Department has in its coffers slightly more than $7 billion, which were deposited in a single check by the Mexican government. That money is gaining a fixed interest rate over a 20-year period (through 2010), when the restructuring will be completed and Mexico will supposedly be freed of this debt burden. Germany, Japan, and the International Monetary Fund lent the $7 billion, which Mexico handed over to the U.S. in 1990. This is on top of the $12 billion in debt service which Mexico was paying every year up to the Brady restructuring. This $7 billion loan was paid off by Mexico in mid-1993, with the proceeds of several state-owned companies that were sold off.

The growth of the foreign debt over the past four years, since the Brady Plan, is not linked to the growth of the domestic economy in any way. On the contrary, Mexico today is undergoing a severe, and some say irreversible, economic depression, although the analysts prefer the term "deceleration" of the economy. The Gross National Product is barely increasing; employment and wages are plunging, while interest rates remain at 34%. Under these conditions, approving NAFTA would mean the complete disappearance of entire sectors of the Mexican economy.

The only thing that has thus far kept these onerous debt payments from causing a financial collapse has been international interest rates, which are relatively low at present; should these rise, Mexico will find itself in total financial catastrophe. According to World Bank figures in late 1992, nearly $25 billion of that debt is short-term and could be defaulted on at any time. The amount of short-term debt is very significant, especially when compared to what it was in 1989—$8 billion—when the Brady Plan was signed. Since the Brady Plan went into effect, Mexico has paid $7 billion a year in debt service, a total of $28 billion—precisely the



Alberto Vizcarra of the Permanent Forum of Rural Producers addresses a demonstration in Ciudad Obregón, Sonora, in August 1993. The growers are demanding an end to bank foreclosures on their farms and equipment, and a moratorium on the debt.

amount by which the debt has risen in that same period.

What's more, $20 billion of the total foreign debt corresponds to the obligations of recently privatized banks, which have imposed an enormous debt service burden on a banking system already in bankruptcy by all traditional technical norms. According to figures presented by various analysts, an extremely high percentage of all of the loans outstanding in the Mexican banking system—approximately 6.7%—is officially considered in arrears, and some estimate that the real figure could be as high as 20% to 30%. The non-performing loans in the agricultural sector alone rose to $8.95 billion (27.75 billion new pesos) in June, a 14% increase in only two months—yielding an annualized 119% increase in non-performing loans. Such non-performing loans could reach $25.5 billion within a year, against a GNP of less than $300 billion.

And these are just the figures for the agricultural sector, without counting the billions of dollars of unpayable debt of Mexican industry which—especially with regard to small and medium-sized companies—has been devastated by a flood of cheap imported consumer goods, together with a highly restrictive credit policy based on high interest rates. The current interest rate on standard commercial and agricultural loans has reached an astronomical 34%, compared to an inflation rate of 9.6%, while the interest rates the banks garner from Treasury certificates is between 13% and 14%.

The banks need this usurious 20% spread to cover their own debts. When debtors cannot pay, the common practice has been to refinance the principal and capitalize the arrears by adding them to original principal at the same high interest rate. This internal debt bubble has grown in the same way as the foreign debt, and demands interest payments that have grown to several times the original principal.

As if this weren't enough, the government's policy on agricultural imports has given the *coup de grace* to our farm sector. Food imports were $3.0 billion in 1988, and $4.0 billion in 1989. In 1990, they reached $4.8 billion, more than three times the $1.5 billion "savings" in interest payments Mexico supposedly obtained with the Brady debt restructuring.

In sum, the disastrous shape of Mexico's agricultural and industrial sectors is reflected in a debt that cannot—and should not—be paid. We farmers don't have the capacity to pay this debt, much of which originated in the 1987-88 period when interest rates were 200%! As we said personally to President Salinas de Gortari when we met with him on Aug. 19 of this year, "If a serious review of the origin of this debt is conducted, we will find that approximately 80% of it is illegitimate, given that its growth is due to factors that had nothing to do with the producers; that money never came in as fresh credit into the agricultural sector."

Consequence of the lost decade for Mexico's farming: genocide

Mexico's agricultural sector suffered the biggest impact under the schema of prioritizing payment of the foreign debt. Public expenditures for rural development declined by 52.1% from 1981 to 1986. Similarly, in 1986, 52.6% of the national budget was earmarked for servicing the public debt, while only 3.5% was spent on rural development.

This policy toward agriculture encouraged a process of falling parity prices relative to the national index of prices charged to the consumer, with the price of wheat and soya falling by more than 25%, and the price of beans and corn, by more than 20%. At the same time, there has been an exponential increase in the prices of needed farm inputs, which grew disproportionately in relation to parity prices. For example, while the price of corn rose 6.6-fold between 1982 and 1992, the price of diesel fuel during the same period rose 296.6-fold.

The cost of agricultural machinery has also risen constantly. A comparison of the equivalences of basic grains needed to acquire a tractor reveals that while in 1982, it required 32 tons of beans, or 85 tons of corn, or 119 tons of wheat; by 1988, 71 tons of beans, 182 tons of corn or 150 tons of wheat were required to buy the same tractor.

The same thing occurred with the cancellation of subsidies for fertilizer. In the period from December 1984 to December 1987 alone, the cost of ammonium sulfate rose by 1,477%, and ammonia by 1,494%. This meant an increase in the price of fertilizers of three orders of magnitude relative to parity prices.

The same panorama can be seen in a more dramatic way in the case of agriculture based upon pump irrigation, where because subsidies on electrical energy use have been increasingly cut, costs have risen substantially, making this form of agriculture completely unprofitable under existing parity prices. This has led to important extensions of land being left fallow, and even in the cases in which farmers have switched to new crops, this has still produced bankruptcies. In the state of Sonora, this has been the case in the Guaymas and Empalme valleys, and the coast of Hermosillo, Caborca, and Sonoyta. In Mexico as a whole, there are a million hectares of pump irrigated land which are in the same situation.

The production of cotton, for example, has been seriously affected by the same policies. In the 1992-93 cycle, Mexico imported around 600,000 bales of cotton at a cost of approximately $180 million, to the detriment of our already deteriorated balance of trade. These bales were imported despite the fact that the country has an installed infrastructure of 200 cotton gins with the capacity to process 1.6 million bales a season.

With respect to milk production, Mexico has become the largest importer of powdered milk in the world, to the grave detriment of national producers: In the south of Sonora alone, where there were once up to 20,000 dairy cows, today there are only 4,500 cows left; that is, a 77.5% reduction in the dairy herd.

The raising of beef cattle, both by intensive and extensive methods, suffers the brutal impact of massive importation of meat, which severely affects the internal market.

In this context it is as absurd as it is unjust to claim that the agricultural crisis is because our producers are inefficient. As it is also absurd to demand productivity and efficiency, when the state does not fulfill its responsibility to create the conditions under which this occurs.

Honorable Representative Henry B. Gonzalez: As we said before, we have reached the conclusion that there exists a deliberate plan to eliminate 60% or more of the Mexican families dedicated to agriculture.

This conclusion was confirmed on Aug. 20, in an article which appeared in the Sonora newspaper *El Imparcial,* in which government and private banking officials stated that the government will provide the resources to restructure the debts in arrears for only 30% of the farmers. This conclusion was also confirmed by the statement of U.S. Attorney General Janet Reno to the *Los Angeles Times* on Oct. 22, that the U.S. will reinforce its measures to close the U.S.-Mexican border because President Carlos Salinas de Gortari's reforms for the farm sector will force "many" farmers to leave this activity, and it is expected that this will significantly increase the immigration to the United States of Mexicans seeking a decent way to live.

A recent package of measures named "Procampo" [meaning pro-farm] confirmed this view even more, because under this government program parity prices for several basic products are reduced, with total deregulation for these prices to be implemented by 1995, affecting principally the most technologically intensive producers. The genocide of which Mexico is already a victim is such that, in Mexico, the farmers baptized this program as "Procamposanto" [meaning "pro-cemetery"].

The bankruptcy of Mexican agriculture is considered a necessary step for attaching it to the stock market exchanges, "stock marketization," as was brazenly revealed by the president of the Mexican Banking Association, Héctor Hernández, during the first meeting of this association held in Puerto Vallarta, Jalisco at the beginning of September, in which he urged the government to reform the relevant laws so as to accelerate foreclosure proceedings against the farmers in order to proceed to "stock marketization." We believe that this means that we are entering a new phase of looting of our economy to pay the foreign debt, with new financial mechanisms which will destroy even more the physical economy of our country, at the same time that they serve as a lever to impose this same mechanism upon all Latin America in an attempt to prolong the existence of a speculative bubble which threatens to raze the very bases of Judeo-Christian civilization.

It is for this reason that we permit ourselves to lengthen this document to call attention to the new mechanisms of looting, with the hope that good sense can return to reign in the nation which was formerly the most powerful on earth, before the exploding of this bubble destroys all of us, rich and poor, alike.

New financial arrangements between Mexico and the United States

While it is difficult to establish precisely what has been agreed upon implicitly, privately, or secretly in the negotiations on credits, finance, securities' operations, and financial derivatives that have been taking place between important

U.S. financial sectors and the government of Mexico, it is possible to identify the main new mechanisms to create a gigantic dollar-denominated capital market outside the control of the United States or even Mexico. These agreements are to be implemented with or without NAFTA.

On Oct. 27, the head of the Bank of Mexico, Miguel Mancera Aguayo, in a speech in Mexico City to the XVIII Annual Conference of the International Organization of Securities Commissions (IOSC), attacked "users of credit for being sometimes imprudent and dishonest," a clear reference to the problem of the gigantic number of farmers and businessmen in arrears. On the other side, he announced that Mexico's Department of the Treasury and the Bank of Mexico are working in coordination with the Basel Committee, the International Organization of Securities Commissions, and the European Economic Committee to design a scheme "with new technology" to "daily evaluate assets and liabilities, in order to determine credit risks and fluctuations at a low cost" for financial brokers. This could be a tremendous opening to introduce the so-called "derivative instruments" on a large scale. Mancera said that "the authorities should facilitate and promote the establishment of credit information companies and securities' rating companies."

Even more important in this regard are the facilities that Mexico is introducing in the capital markets through reforms in the tax codes, besides any financial accord adopted in the framework of the North American Free Trade Agreement, which set the groundwork for the introduction into Mexico of the practice of issuing tax-exempt derivative instruments.

The draft of the Income Tax Law that was released to the media by the national Department of the Treasury on Oct. 26 states:

1) "The reduction, for two years, from 15% to 4.9% of the withholding tax that must be retained for credit operations with foreign banks and the foreign subsidiaries of Mexican banks, will be extended to bonds issued by Mexican companies in foreign currency to reduce the costs of obtaining financing." Such a measure virtually deregulates private foreign indebtedness and facilitates the dollarization of Mexico's economy on a grand scale, while the amount of national currency in circulation is kept restricted.

According to statements made by President Carlos Salinas de Gortari himself, the amount of national currency in circulation is less than the dollar-denominated currency in the national reserves. That's coherent with the decision of the Bank of Mexico to condition the issuance of national currency to the amount of dollars in reserve, setting the basis for making the dollar the legal currency on Mexican territory.

That was excellent news for the foreign banks and the Federal Reserve System of the United States, and their plans to transform Mexico into a subsidiary for their fraudulent issuances. Chase Manhatthan Bank and brokerage firms such as Merrill Lynch, Baring, and Goldman Sachs immediately expressed their satisfaction and let it be known that the measure is complementary with that of maintaining the peso-dollar parity exchange, and with leaving the Bank of Mexico on the sidelines regarding the the new directives.

2) One of the key elements of the tax reforms centers on financial activities, where all sort of operations are being considered, including those involving derivatives. Tax exemptions are provided "for derivative transactions if they are carried out through authorized exchanges or highly securitized markets, as determined by the Department of the Treasury and Public Credit."

These facilities were implicitly referred to by Secretary of the Treasury and Public Credit Pedro Aspe in his speech on Oct. 26, during the first day of the IOSC conference. "It is important to develop a long-term capital market to support projects of long maturation, such as those intended to improve the country's infrastructure," Aspe stated.

The efforts in this regard of the U.S. financial firm Lehman Brothers in 1991 and 1992, which proved unsuccessful, are well known. These were to issue dollar-denominated bonds against the future income generated by the Mexico City-Toluca toll road, and sell them to foreign interests. According to private sources, Lehman Brothers and Crédit Suisse-First Boston are currently engaged in negotiations with the Mexican government to issue the same type of dollar-denominated bonds against future income from tolls on 100 privatized kilometers on the Mexico City-Cuernavaca super-highway, one of the most densely travelled roads in the country. These dollar-denominated bonds could be used for many other public services once they are privatized.

The Mexican government already has undertaken to grant 15-year concessions on some of these. There were attempts by concessionaires to recoup their investment in four or five years by charging tolls that were three and even four times higher than the U.S. average. But that resulted in failure when it triggered massive protests throughout the country, because it flagrantly violated the right to passage consecrated in the Constitution, to construct toll roads without building a parallel toll-free federal highway. To refinance the failed project, the government is now offering concessions for 20 or 30 years.

Secretary Aspe's announcement paved the way for the introduction of foreign concessionaires not only to the building and administration of highways, but also to supply water services to Mexico City, to airports and maritime harbors, the latter in the process of being privatized. This will be a huge market of dollar-denominated financial derivatives, which would be backed by the Mexican government.

According to our sources, the U.S. investment firms Goldman Sachs, Bear Stearns, Crédit Suisse-First Boston, and Lehman Brothers; London's S.G. Warburg and Montagu; the French Crédit Lyonnais and Banque Paribas, and the Hongkong and Shanghai Bank are all seeking accords along these lines with the Mexican government.

In the aforementioned speech to the IOSC, Secretary

Aspe announced that "the negotiations on the financial chapter of the Free Trade Agreement state the conditions in which the opening of the financial markets will take place, through the presence of the institutions of the three signatory countries. . . . The array of these initiatives aims at encouraging the internationalization of the sector." He mentioned that the government is now working on updating regulations and reforming the laws governing credit, insurance, and auxiliary credit and stock exchange institutions, to allow an opening to the outside and for the internationalization of the sector.

The internationalization of financial operations and the protection of derivative instruments makes clear that Mexico will be used to protect, and then extend to the rest of Latin America, a deregulated capitals market, denominated primarily in dollars.

During the Oct. 26-28 ISOC conference in Mexico, Douglas Campbell, head of the financial firm Campbell Company, Inc., stated that a "dramatic boom" in the levels of capitalization of emerging world markets is expected, in which Latin American participation is key. "The capitalization of those markets has increased from $7.5 billion to $50 billion between 1990 and 1993, and it is expected that it will increase from $50 billion to $330 billion in the course of the next three years." Campbell emphasized that a significant portion of those funds would be channeled primarily into emerging markets that are expanding, specifically to those showing the greatest range of fluctuations. "These factors are especially important for Mexico, since this country has the largest expanding market in the world. . . . Mexico finds itself in the lead, with a growth potential that could attract foreign investment of up to $75 billion between 1993 and 1996," he insisted.

At that same meeting, Arthur Levitt, chairman of the U. S. Securities and Exchange Commission, said that "Mexico has had a marvelous investment policy and if the Treaty passes, access to investment and cooperation between the United States and Mexico will be better, more effective."

For his part, Secretary Aspe reported: "Foreign investment entering the country through the stock market has surpassed $17 billion since 1989, and the selling of debt by Mexican companies on the international markets brought in an additional $15 billion between 1991 and 1993."

Securitization of the debt and a hemispheric Federal Reserve

Meanwhile, what's to happen with Mexico's bankrupt farmers, industrialists, and shopkeepers? The strategy was defined during a series of financial seminars recently held in Mexico.

The Autonomous Technological Institute of Mexico (ITAM), operating center for Bank of Mexico head Miguel Mancera, held a seminar on "Savings and Credit in Rural and Semi-Urban Areas." On the pretext of encouraging "internal savings," the discussion on financial modernization centered on what to do with farm debt arrears. One of the speakers, World Bank economist Delbert Fitchtett, declared categorically that "government offers of debt forgiveness to the farmers should only be made as a temporary emergency measure." Fitchtett concluded that "banks should avail themselves of credit unions and cooperatives, insurance and pension funds for loans to farmers, besides encouraging the securitization of those same loans on the secondary markets."

Meanwhile, on Sept. 27 and 28, the Grupo Fomento de la Cultura held a seminar titled: "Securitization of Credit: A New Financial Technology." The purpose of the seminar was to analyze "the application of a new financial technology that would allow the efficient securitization of mortgage, credit card, auto loans, accounts receivable, etc."

Recent agreements between the banks and Mexico's Department of the Treasury to restructure farm arrears have laid the groundwork for facilitating the securitization of that debt, without having to address the macroeconomic policies that produced the sector's bankruptcy in the first place.

The culmination of this process was most clearly expressed last July 10 by International Monetary Fund economist Guillermo Calvo, who said at a financial seminar in Bogotá, Colombia, that "Latin America's central banks should make arrangements with the U.S. Federal Reserve to be able to control dollar flows and to have an efficient banking system. . . . It is growing increasingly difficult for the banks to control inflation and liquidity. We should realize that we are in a dollar area and that our economies have been dollarized."

In a private conversation afterwards, Calvo stated that "with NAFTA there already exists a Federal Reserve line of credit of $5 billion for the Bank of Mexico, a 'swap' credit, and the idea is to generalize this throughout Latin America."

The idea presented by Guillermo Calvo is that Latin America's central banks be enabled to make dollar-denominated loans both in the originating country and abroad. "Banks that do not have the backing of the Federal Reserve can only lend on terms precisely equal to that which they have on deposit. If the deposits are for three months, the bank cannot lend for six months." As an example, Calvo mentioned that in the United States, if a bank has a temporary shortage of funds it can obtain a loan from the Federal Reserve without paying a rediscount fee. The central banks of Latin America could do the same thing if they had agreements with the Federal Reserve to obtain such credits and, with that, to support the banking system. Such loans to a central bank could return as dollar loans to U. S. commercial banks.

What is certain is that this whole affair would mean dollars flowing out of the United States through Mexican banks, and in turn, through the banks of other countries, over which the U.S. government, and the House Banking Committee, would have no control. At the same time, such practices imply that Mexico would find itself reduced to a colonial extension of United States financial interests.