Zedillo won't privatize oil; speculators take revenge

by Carlos Cota Meza

Mexico is once again being visited by financial instability, triggered by President Ernesto Zedillo's decision to resist the pressures of the international banking community and not privatize the petrochemical industry, instead applying an investment formula in which the state will retain ownership of 51% of the industry, and national or foreign private investors can participate in the remaining 49%. That decision was welcomed by many inside Mexico's ruling Revolutionary Institutional Party (PRI), but was also met with a great gnashing of teeth by the gnomes in Wall Street and the City of London.

The illusion of Mexico's financial stability, so carefully nurtured since the debt bomb blew up in December 1994, dissolved during the third week of October, when Mexico was hit by a familiar pattern of capital flight, a peso slide against the dollar, a skyrocketting of internal interest rates, and a toboggan ride on the stock market. Assurances by Energy Minister Jesús Reyes Heroles to international speculators that suspension of the privatization plan would be but a temporary setback, did little to assuage the wrath of those who had thought that Mexico's oil was finally within their grasp.

'The pirates are angry'

Lawmakers from the ruling PRI are saying for the first time that President Zedillo "is retaking a nationalist path," and that the financial instability "is the backlash of a great conspiracy by all those who find themselves affected." Some congratulated President Zedillo openly for finally listening to the PRI rank-and-file which elected him. Others are warning that "the pirates are angry," and that these are the big foreign moneybags who "wanted to grab Mexican stocks at bargain-basement prices."

On the other hand, the champions of free trade within the opposition National Action Party (PAN), are hysterically accusing the PRI of "tying the hands of the President," referring to the intense lobbying effort against petrochemicals privatization carried out by the Mexican labor movement and others in the period leading up to Zedillo's decision. They are the ones "who adhere to the general outlines of the Luis Echeverría and López Portillo Presidencies," charged PAN Sen. Francisco X. Salazar.

Luis Pazos, a populist spokesman for the extreme neoliberalism (i.e., British free trade ideology) of the Mont Pelerin Society, says that the failure to fully privatize the petrochemical industry "is a victory by the dinosaurs, and by the sectors whose goal is to preserve outmoded statist schemes." Enraged columnists accused Fidel Velázquez, veteran leader of the Mexican Workers Federation, of having imposed a "suicidal fundamentalism" against the privatization.

The Mexican media have revealed that intense pressure was applied on members of the Zedillo administration, in the form of private meetings between PRI legislators and public officials. Miguel Mancera Aguayo, Mexico's central bank director, was subjected to one such "private meeting" with members of the finance committees of both houses of Congress, where, at the insistence of PRI deputy Francisco Suárez Dávila, a four-hour discussion was held on the question of central bank autonomy. Congressman Suárez Dávila, who chairs the finance committee, demanded "detailed information" on Mancera's monetary policy, and warned that, its autonomy notwithstanding, it must "not be forgotten" that the Bank of Mexico "does not enjoy absolute independence from the powers of the state."

Sen. Carlos Sales (PRI), who chairs the Senate finance committee, pointed out to Mancera that he must recognize that the "people's patience is running out."

In the middle of this row, some were asking: "Is there any chance that the non-privatization of the petrochemical industry will resolve the economic crisis?" Others responded, "Has economic liberalism resolved the crisis?" But what none of the parties to the conflict have managed to recognize is that the fundamental instability of Mexico is not due to any of the events in which they are participating.

Mexico first to go down—again?

As was admitted in the recent annual meeting of the International Monetary Fund (IMF), the world is going through the worst banking crisis of the century. Mexico's upheavals are directly related to the jam that the international financial bodies are in as they try to deal with each new crisis erupting anywhere around the globe. Rimmer De Vries, former chief economist at J.P. Morgan bank, during a recent seminar at the IMF's Institute of International Economics, said that the "next time a new crisis breaks out in the problem debtor countries . . . we will not see the IMF coming in with billions of dollars in aid, but we will see the consequences of the crisis hit the domestic and international markets."

De Vries points to Turkey and Thailand as countries ready to suffer a financial crisis. De Vries knows Mexico's financial situation, because J.P. Morgan headed up the creditor syndicate in the Brady Plan negotiations of 1990.

The IMF directors have also been explicit that there will no longer be any financial bailout packages to refloat the "next Mexico." The only thing being offered to Mexico at present, according to IMF Managing Director Michel Camdessus, is a so-called "Preventive Plan," which involves "defining the cost of the reimbursement of contributed loans," in order to confront the most recent problems of the financial emergency in Mexico. The plan would begin to function during the first quarter of 1997, and operate until the end of 1999.

Finance Secretary Guillermo Ortiz claims that the "Preventive Plan" is to deal with more than $10 billion in foreign debt owed to the IMF. In 1995, Mexico paid $41 billion on its foreign debt; this year, payments will be $26 billion, not counting the $14 billion due which were refinanced by new Mexican bonds floated on the international markets.

Adding up the write-offs and bond issues from 1995 to the present, Mexico has recycled some $81 billion, only to enter 1997 with yet another rescue plan to deal with its obligations to the IMF. And, the "Preventive Plan" does not have the support of the entire international financial community.

The same is occurring with the national banking system, or the "internal markets," as De Vries calls them. It is well known that the Mexican government has been trying for a year and a half to keep Mexico's banks from disappearing, but has not succeeded. The Savings Bank Protection Fund (Fobaproa) and the National Commission on Banks and Stocks (CNBV) have taken over ten private banks, and aided another 11. So far, these operations have cost 113 billion pesos (roughly $15 billion).

According to President Zedillo's second State of the Nation address, these actions have done nothing to stop the current banking disaster. Overdue debts in 1995 grew 64.5% over the previous year, and in only the first four months of 1996, non-performing debt was already 98.5% of the level reached in all of 1995. And these calculations don't include interest.

In June 1996, private banks had declared assets of 599 billion pesos, while their debts rose to nearly 606 billion pesos, leading to a deficit of 6.8 billion pesos. The profit margin of the banks is less than 7.69%, rates of return on capital are less than 13.29%, and the yields on assets are less than 0.59%. These indicators exclude banks that have been taken over or are in "a special situation," including Banco Unión, Cremi, Banpaís, Interestatal, Oriente, Obrero, Inverlat, Bancen, Capital, and Sureste.

Traditional banking has disappeared from the national economy. Bank deposits in the first half of the year plunged 23.5%, the loan portfolios of the banks have fallen 56% in the past year and a half, and bank financing has fallen 47.25% in the same period.

With the increase in interest rates and the peso devaluation during the last turbulence in October, it is forecast that arrears will grow, bank income will decline, and bankruptcies in the national banking sector will multiply. Everything now seems to indicate that the IMF, through its famous "Preventive Plan," seeks to directly administer Mexico from now through the year 2000. That plan includes the explicit "obligation" that Mexico privatize its state oil company, Pemex.

'LaRouche plan' is sole alternative

It is this last conditionality which appears to have defined a "boundary condition" for the Mexican ruling class, whose members are now faced with the fact that sticking with IMF conditionalities will mean the eventual privatization of Pemex, something which until just a few years ago was rejected out-of-hand in all public and private discussions. The factional brawl within Mexico's ruling elites over whether that boundary will be crossed is growing increasingly heated.

Addressing the overall financial crisis, U.S. statesman and economist Lyndon LaRouche offered the following on Oct. 16: "The only alternative is mine. . . . My policy is that the governments must act *now,* or set the action up now, to be prepared, the moment the public clamors for it, is willing to support it, to put all this financial system into government receivership and reorganization, to prevent a chain-reaction which could lead to social chaos. That is, to protect the people, to protect the economy from the effects of this financial bubble bursting."