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Nation in Jeopardy

Mexico's Future Grows Even More Incalculable After the Earthquake

Prior Plan to Spur Economy Now Seems Incompatible With Speedy Rebuilding

Some Fear Disorderly Change

By JOHN HUEY and STEVE FRAZIER
Staff Reporters of THE WALL STREET JOURNAL

MEXICO CITY—All bets are off on the future course of Mexico.

Even before the horrible human tragedy and economic devastation of last week's earthquake, the world's 13th-largest economy lurched along in a state of undeclared disaster. A showdown with U.S. and other foreign banks holding $96 billion in unpayable Mexican debt seemed inevitable.

Mexico's leaders governed on borrowed time. At home, their austerity measures required painful long-term sacrifice from a constituency eager for short-term relief; abroad, they feared that a further decline in oil prices coupled with a rise in interest rates would make it impossible even to pay the interest on the foreign debt—much less obtain badly needed new credit.

MEXICO

BORROWED TIME

FIRST OF A SERIES

When last week began, the apocalyptic vision worrying the Western financial order was: Mexico fails to pay its interest; major U.S. banks are forced to swallow huge losses; other Latin debtors—who look to Mexico for leadership—tumble. Reflecting these fears, and a sag in world oil prices, the peso hit a record low last Wednesday.

Then on Thursday, Mexico City suffered its worst disaster since Hernan Cortes destroyed it in 1521, and the scope of Mexico's problems moved beyond measurement. In some ways, the tragedy pushed the country through a sort of economic "looking glass," making its difficulties almost impossible to evaluate in real terms; black is no longer black, white no longer white.

"This really is likely to be a watershed in the country's history," says Alan Stoga, a senior analyst at Kissinger Associates Inc., the Washington consulting firm. "One of the consequences of the earthquake is that it probably shortened even further the time that the president has to show results."

As tragic as the quake was, it could have been worse. Most of the country's industrial plant held together, and Mexican authorities moved quickly to assure social order. Also, it seems likely that the disaster will temporarily forestall pressure from creditors. Nevertheless, the earthquake must be assessed within the crisis context in which it struck.

President Miguel de la Madrid had already been giving grave warnings about Mexico's debt. "The domino theory must be kept in mind," he said in an interview with this newspaper shortly before the earthquake. "If a heavy piece falls, the whole game can collapse." His finance minister, Jesus Silva-Herzog, was equally blunt. Asked what strategy he would take if oil prices continue their decline he made a motion of washing his hands of the problem.

These two Ivy-League-educated technocrats, along with others of similar background like central bank president Miguel Mancera, have charted a course of long-term recovery that calls for a greatly reduced public budget and the opening of competition in key industries. It is difficult now to see how such a plan is compatible with the speedy reconstruction of the world's most populous city—already gasping for services before suffering damages estimated in the tens of billions of dollars.

Miguel de la Madrid

In all this, the U.S. holds a stake of inestimable importance. Some Washington analysts, such as Mr. Stoga, believe that U.S.-Mexican relations should rank just behind superpower politics and maintenance of the Western alliance as Washington priorities. Yet, as Mr. Stoga notes, "there has been a tendency to look at Mexican problems only when they blow up." Even with Mexico threatening the Western banking system's stability, it has received attention that rises and falls with interest rates—or earthquakes.

While the U.S. gropes to embrace its prickly neighbor as an ally, Mexico, for its part, is bound by history and political tradition to oppose the U.S. in public forums. The U.S Marine invasion of Veracruz and the "Halls of Montezuma" of the Marine Hymn are part of Mexico's living history, kept alive by a Museum of Intervention in Mexico City. A recent editorial on the front page of Mexico City's leading newspaper, Excelsior, began: "The United States is the worst political problem in Mexico," and went on to denounce the U.S. ambassador, economic policy and the press.

The visceral anti-U.S. sentiment permeates Mexican policy in the cause of independence, often at great cost. Fearing domination by the U.S., Mexico refuses to join such developed-world forums as the General Agreement on Tariffs and Trade although it talks about doing so, and it erects barriers to foreign venture capital. Having borrowed to finance grandiose development, Mexico now finds itself resentful at sliding back into Third World status. Instead of developing into an independent industrial power, it now depends on the prices of natural-resource exports and the whims of foreign bankers to survive.

"There is absolutely a real need to orient this country to the external world," says Othon Ruiz Montemayor, head of Monterrey's Grupo Visa, a huge beer and food conglomerate.

Uncooperative Intimacy

Amid all the rhetoric, though, Mexico remains intimate with the U.S. Its moneyed classes, even high-ranking government officials, continue to turn their pesos into dollars and invest them across the border. Still, cooperation even in the simplest humanitarian matters is sacrificed. When a natural-gas facility exploded on the outskirts of Mexico City last fall, the Mexicans rejected U.S. Embassy offers to fly badly burned victims to special treatment centers north of the border.

And again, after last week's earthquake, Mr. de la Madrid's first response was to say that Mexico could handle the disaster on its own, even as rescue workers tried to dig through the rubble with their bare hands and pickaxes. When the government finally realized that specialized foreign equipment might help save lives, the foreign minister offered the convoluted explanation that Mexico wasn't asking for help but that it wouldn't refuse it, either.

The earthquake will divert attention in the short term from Mexico's other problems. The country now has legitimate reason to claim that its most pressing problems are beyond its control. But even before, it had begun to blame its troubles on the external devil of oil prices. Asked recently how much of Mexico's problems were its own fault and how much the outside world's, Mr. Silva-Herzog, the finance minister, said: "17.9%, but I'm not saying whose percentage that is."

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Many doubted the extent to which the government had control even before the earthquake. "This is one of those dramatic moments in history when you can see the direct consequences of dependency and development," said Lorenzo Meyer, a political scientist at the prestigious Colegio de Mexico, days before the quake. "We aren't in control."

Now the job of taking control and guiding this huge, complex nation through perilous straits falls squarely on Mr. de la Madrid, a man, by most accounts, of small ambition.

When he served as minister of planning and budget in the previous administration of President Jose Lopez Portillo, for example, it is said that he complained of being frozen out by a ministerial rival, then asked to be awarded a lifelong goal: the governorship of Colima, Mexico's smallest state and the birthplace he left at age three. Instead, Mr. Lopez Portillo named him to be the next president. Just a few years ago, says one detractor, "He was the guy businessmen went to see when they had foreign-exchange problems."

His leadership style leans toward technical planning rather than crisis management. It reflects his graduate studies in public administration at Harvard, according to one adviser, who says that Mr. de la Madrid administers his cabinet meetings like a corporate board of directors. "His style is managerial and almost devoid of traditional politics," says Rogelio Ramirez de la O, a respected economic consultant and a close observer of the administration. "He hates politics so much he even forbade applause at his *informe* (state-of-the-union speech). But he is also a man who doesn't want to take any risks. He wants everything for free."

Supporters Worry

Even so, Mr. Ramirez believes that Mr. de la Madrid should be credited for all the mistakes he hasn't made—for not making wild promises raising expectations, for example—and argues that a man of caution could prove to be exactly what is needed.

While most critics fault Mr. de la Madrid more for errors of omission than commission, even supporters worry about how long a president with little political charisma can sell a platform consisting solely of "reduced expectations."

His marked failure to woo Mexico's alienated middle class and growing urban poor into the political base of the ruling Institutional Revolutionary Party (PRI), or to capture the imagination of any existing factions, is viewed as a serious lapse. Such worries are really aimed at the general direction that the PRI has taken since Luis Echeverria was named president in 1970. Messrs. Echeverria, Lopez Portillo and de la Madrid each have run for only one public office: the presidency. Thus they brought no loyalty from any of the party's powerful popular constituencies into office.

They are all viewed as creatures of Mexico's swollen bureaucracy, rather than as persuasive political leaders. One resentful politician calls Mr. de la Madrid and his cabinet "the first generation of North Americans born in Mexico."

In Monterrey, where business disaffection with the system has been growing steadily with each new crisis, industrialists say attempts by Mr. de la Madrid's predecessors to solve problems only created new ones. Having shocked the nation with its bloody repression of the 1968 leftist student movement, the PRI launched a steady, long-term expansion of the state and unleashed rapid, poorly financed economic growth. In a more convulsive gesture, when Mr. Lopez Portillo's dreams of Mexican glory through oil began to crumble, he nationalized the banking system, claiming he had been betrayed by bankers who shipped money abroad.

Business Lacks Faith

The Mexican business class prefers Mr. de la Madrid to either of his two predecessors, but they lack faith in tangible progress. "I think what they say about how to get out of the crisis is quite acceptable; they just don't know how to do it," says Eugenio Clariond, a PRI member and president of Monterrey's Grupo Imsa, a metal-products conglomerate. He, like others, fears disorderly change. "Unless there is a change from within the system," he says, "there will have to be change from without. How long will the Mexican population tolerate this?"

Apparently uncertain of its own political capital, the de la Madrid administration has been slow to implement reforms that it deems necessary—such as trimming the bureaucracy, lowering protectionist barriers, opening up domestic competition and reining in the powerful oil workers' and teachers' unions—but that would anger entrenched interests.

Top bureaucrats, for instance, recently received 50% pay increases while their underlings received single-digit raises. And because of the administration's failure to break the powerful oil workers' union leadership's notorious corruption, Mr. de la Madrid's so-called "moral renovation" is considered a flop. In spite of such gestures as opening a Museum of Corruption in the former Mexico City police chief's grotesquely extravagant mansion, no one really believes that corruption has abated.

'Paralyzed by History'

(The collapse of shoddy construction in the earthquake has aleady spotlighted corruption as a possible major villain in the disaster, and the reconstruction effort will pose a major test of Mr. de la Madrid's control of public money.)

Regarding the administration's inability to implement its well-intentioned reforms, Mr. Meyer, the political scientist, says: "They are paralyzed by the history of the country, by the history of the government and the history of the system. They can't move in a dramatic way, and the times require dramatic moves. There is no technical answer to what is happening."

No one, of course, knows what the solution will be. In Washington, centrists share the Mexican government's view that the PRI has every likelihood of somehow continuing its remarkable 56-year record of stability and rule by consensus. But a minority group of right-wing analysts—concentrated in the National Security Council—has turned the attention of such powers as CIA director William Casey to the possibility that a stagnating PRI could be losing its grip on Mexico altogether.

The White House also bears tremendous resentment toward Mexico for its coziness with the Sandinista regime in Nicaragua. At one time, according to sources in the intelligence community, the CIA developed a covert-action program aimed at pressuring Mexico, but there is no evidence that it was ever implemented.

Mexicans still believe they are the target of U.S. destabilization efforts. They blame critics within the Reagan administration for such events as a leak to columnist Jack Anderson of an unsubstantiated report—which Mr. de la Madrid vehemently denied—that the Mexican leader was shipping money to a Swiss bank account.

For now, though, a moderate view seems to prevail in Washington. Even after being pressed to come up with as tough a report as facts would support, a recent assessment by the CIA set the chances of a complete breakdown of Mexico's system at only 20%. And though U.S. ambassador John Gavin is viewed in Mexico as an "interventionist devil," he has been a moderating influence on the White House.

For his part, Mr. de la Madrid's unspecific optimism about the future came through strongly in the Journal interview. "If circumstances worsen, we could very well have problems," he said. "But it must also be taken into account that at every stage in its history Mexico has been able to find the right path and the right solutions in its own particular way."

These solutions, he added, "sometimes appear strange when viewed from abroad if the history of the country and the enormous complexity of Mexican society are not known in depth."

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A Country in Cross Section

Mexico: A look at Its People, Its Commerce, Its Resources and Its Role In the International Economy

Size and Population

Land Mass

Mexico is the 13th largest country in the world. With 764,000 square miles, it is larger than all of Continental Western Europe and about three times the size of Texas.

Population Rank (1984)

1	China	1.1 billion
2	India	747 million
3	Soviet Union	276 million
4	U.S.	236 million
5	Indonesia	162 million
6	Brazil	133 million
7	Japan	120 million
8	Pakistan	99 million
9	Bangladesh	98 million
10	Nigeria	92 million
11	**Mexico**	**77 million**

Mexico's 1985 population is 78,900,000. In 2025, Mexico will have an estimated 154 million people and will be the 10th most populous nation. Japan will drop to 11.

The country's 3.5% growth rate in the 1960s slowed to 2.6% in 1984.

12	W. Germany	61 million
13	Vietnam	58 million
14	Italy	57 million
15	United Kingdom	56 million

Median Age

Mexico	**18.4 years**
U.S.	32 years

Infant Mortality

Live births not surviving one month, per 1,000 births

Mexico	**53**
U.S.	12

Source: United Nations

Trade and Debt

Balance of Payments

	SURPLUS
First half 1985	$ 3.9 billion
1984	7.47 billion
1983	6.8 billion

Current Account

Trade plus certain unilateral transfers

	SURPLUS
First half 1985	$24 million
1984	3.4 billion
1983	2.8 billion

Total Foreign Debt

Brazil	$ 103 billion
Mexico	**96.5 billion**
Argentina	50 billion

Source: Banco de Mexico

Energy Resources

Mexico ranks fifth in oil reserves, after Saudi Arabia, Kuwait, the Soviet Union and Iran. Iraq is sixth. The U.S. is seventh.

Mexico is the third-largest oil exporter to the non-communist world after the United Kingdom and the Soviet Union. Saudi Arabia currently ranks fourth.

	OIL RESERVES (billion bbls)	GAS RESERVES (trillion cu. ft.)
Soviet Union	63	1,450
Mexico	43.6	77
U.S.	34.5	198

	OIL PRODUCTION* (million bbls/day)	NET OIL EXPORTS (million bbls/day)
Soviet Union	12.4	3.375
Mexico	3.01	1.5
U.S.	10.38	0

*Includes crude oil, shale oil sands and natural gas liquids recovered separately.

Standard of Living And Migration

Per Capita Income

GNP per capita in 1983 dollars for selected countries. (Mexico's $2,240 is relatively high, but only 9% of all income is shared by 40% of the population. By comparison, in Bangladesh, the poorest 40% share 17% of total income.)

U.S.	14,110
W. Germany	11,430
Japan	10,120
Mexico	**2,240**
Brazil	1,880
Nigeria	770
China	300
Bangladesh	130

Migration

Mexico is the biggest source of legal and illegal migration to the U.S.

	1984
Legal migration from Mexico	57,557
Illegal immigrants apprehended	1,169,000

Housing

	1970	1980
Homes with water	61%	71%
Homes with electricity	59	75

Literacy

For those in population who are 10 years of age or older

	1970	1983
Illiterates	34.9%	11.9%
Completed primary school	24.9	31.9
Completed secondary school	9.4	23.8

Source: World Bank, INS, Mexican education ministry