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FM MEXICO CITY 180200Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 879 OF 15 OCT 82

INFO DOT, ECGD, TREASURY, BANK OF ENGLAND, WASHINGTON

MY TELNO 852: MEXICAN ECONOMIC CRISIS.

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1. MEXICO SEEMS NOW TO BE SLIPPING DEEPER INTO ECONOMIC CRISIS. AT THE TOP THE PRESIDENT CONTINUES TO MAKE LOFTILY VACUOUS STATEMENTS ON ALMOST EVERYTHING EXCEPT WHAT MATTERS. NEITHER MINISTERS NOR THE POLITICAL AND PARTY APPARATUS HAS SO FAR MADE MUCH EFFORT TO PREPARE PEOPLE FOR THE AUSTERITIES TO COME.
2. BUT THERE IS A GENERAL MOOD OF APPREHENSION, CYNICISM AND GLOOM. YESTERDAY'S WIDELY REPORTED NEWS THAT THE MINISTER OF FINANCE HAD AT LAST SIGNED A LETTER OF INTENT TO THE IMF PRODUCED RELIEF IN MOST QUARTERS (MY TELS NOS 872,873, AND 874). ITS SUBSEQUENT DENIAL RISKS PRODUCING CORRESPONDING FEELINGS OF WOE. NO-ONE KNOWS WHETHER THE STORY WAS JUST A MISTAKE, OR CONCEIVABLY SABOTAGE DESIGNED TO MOBILISE OPPOSITION TO AN IMF AGREEMENT. THE INCIDENT CANNOT HAVE HELPED EITHER THE AGREEMENT OR THE PRESENTATION OF ITS TERMS TO THE PUBLIC.
3. IN THE MEANTIME THE HEADY POLITICAL EFFECTS OF THE TWO MEASURES TAKEN BY THE GOVERNMENT ON 1 SEPTEMBER - THE NATIONALISATION OF THE BANKS, AND THE IMPOSITION OF FULL EXCHANGE CONTROL- HAVE BEGUN TO WEAR OFF. FEW NOW PRETEND THAT EITHER MEASURE CAN SOLVE ANYTHING. TO GENERAL SURPRISE THE PRIVATE BANKERS HAVE SECURED A PRELIMINARY SUCCESS IN THEIR ACTION CALLING FOR AN INJUNCTION AGAINST EXPROPRIATION: THE JUDGE OF THE DISTRICT COURT HAS AGREED THAT THEIR CASE SHOULD BE HEARD. THUS EVEN IF THE EXPROPRIATION HAS SINCE BECOME PART OF THE CONSTITUTION, THE GOVERNMENT WILL HAVE TO DEFEND ITS ACTIONS, THE CONSTITUTIONAL ISSUES WILL GET A HEARING, AND THE POT WILL BE KEPT ON THE BOIL. SO FAR THERE IS NO SIGN OF ANY MOVE BY THE GOVERNMENT TO FULFIL ITS UNDERTAKING TO RETURN THE PRIVATE BANKS' INVESTMENTS TO THE PRIVATE SECTOR.
4. THE EXCHANGE CONTROL SYSTEM IS IN GREAT DIFFICULTIES, AND CAN HARDLY CONTINUE MUCH LONGER IN ITS PRESENT FORM. THERE IS A DIRE SHORTAGE OF DOLLARS AT BOTH THE PREFERENTIAL AND THE OFFICIAL RATE, AND A CORRESPONDING RISE IN THE BLACK MARKET. ANYONE WHO REALLY NEEDS DOLLARS CAN GET THEM, ALBEIT AT HIGH RATES. IN THE FRONTIER AREAS THERE IS SCARCELY EVEN THE PRETENCE OF EXCHANGE CONTROL. ONE RESULT HAS BEEN A MASSIVE MOVEMENT OF PESOS INTO THE UNITED STATES, AND THE GOVERNMENT IS FINDING THAT MANY AMERICANS NOW PREFER TO MAKE PAYMENTS IN PESOS FOR MEXICAN EXPORTS, AND THAT AMERICAN TOURISTS ARRIVE IN MEXICO ALREADY LADEN WITH PESOS. THUS THE DOLLARS ON WHICH THE AUTHORITIES HAVE COUNTED HAVE NOT MATERIALISED. EFFORTS ARE NOW BEING MADE TO PERSUADE FOREIGN COMPANIES

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WITH DOLLAR DEBTS IN MEXICO EITHER TO SET UP PESO ACCOUNTS FOR EVENTUAL TRANSFER INTO DOLLARS, OR TO PUT THE MONEY THEY ARE OWED INTO SHARES IN MEXICAN ENTERPRISES WITHIN THE LIMITS ALLOWED BY THE LAWS GOVERNING FOREIGN INVESTMENT.

5. FOREIGN TRADE IS AT A LOW EBB. THE NEW IMPORT LICENSING SYSTEM IS HEAVY AND SLOW, AND INCAPABLE OF MEETING THE DEMANDS MADE ON IT. ALREADY THE AUTHORITIES ARE ISSUING LICENCES WITHOUT ENQUIRING THE WHEREABOUTS OF THE NECESSARY FOREIGN EXCHANGE. THEY ARE PAINFULLY CONSCIOUS OF THE DANGER THAT MAJOR PARTS OF MEXICAN INDUSTRY MAY SOON HAVE TO CLOSE DOWN IF ESSENTIAL FOREIGN COMPONENTS ARE NOT BROUGHT IN. INCREASINGLY FOREIGN SUPPLIERS ARE REFUSING TO DESPATCH GOODS WITHOUT PROMPT PAYMENT IN DOLLARS.

6. ALTHOUGH THE AUTHORITIES HAVE AT LAST RECOGNISED THE IMPORTANCE OF EXPORTS, THEY HAVE NOT SO FAR REMOVED THE BUREAUCRATIC HANDICAPS TO EXPORTING, OR BROUGHT THE POINT HOME TO MANUFACTURERS MADE SLACK BY HIGH PROTECTIVE TARIFFS. THERE IS NEW INTEREST IN BARTER DEALS, AND OCCASSIONAL ATTEMPTS TO INSIST THAT ENTERPRISES LINK IMPORTS TO EXPORTS. BUT ALL RECOGNISE THAT FOR THE FORESEEABLE FUTURE THE COUNTRY'S PRINCIPAL EXPORT WILL REMAIN OIL, AND THAT THE ECONOMY WILL REMAIN DANGEROUSLY DEPENDENT ON ITS INTERNATIONAL PRICE.

7. IN GENERAL THE INERTIA WHICH HAS CARRIED THE ECONOMY FORWARD OVER THE LAST FEW MONTHS IS VISIBLY SLOWING DOWN. INDUSTRIAL PRODUCTION IS SAID TO HAVE DECLINED BY AROUND 20%, AND LAY-OFFS ARE INCREASING IN ALL INDUSTRIAL AREAS. SOME CLAIM THAT EVEN IF THEY COULD MAINTAIN PRODUCTION, DEMAND WOULD NOT JUSTIFY IT. THERE IS CONTINUING ARGUMENT AMONG THE UNIONS ABOUT HOW TO MAINTAIN WORKERS' PURCHASING POWER, AND THE MAIN USUALLY GOVERNMENT-INFLUENCED UNION HAS POSTED STRIKE NOTICES THROUGHOUT THE COUNTRY FOR A 50% WAGE INCREASE BACK-DATED TO AUGUST. THIS ACTION HAS CAUSED A BARRAGE OF CRITICISM FROM MANY GOVERNMENT SUPPORTERS AS WELL AS THE BUSINESS COMMUNITY, AND HAS NOT BEEN SUPPOTED BY TWO OF THE OTHER UNION FEDERATIONS. HOW THINGS WILL TURN OUT IS ANYONE'S GUESS, BUT FEW EXPECT CO-ORDINATED NATIONAL STRIKE ACTION. INDIVIDUAL ENTERPRISES WILL PROBABLY BE LEFT TO PAY WHAT THEY CAN.

8. AS IF MAN-MADE PROBLEMS WERE NOT ENOUGH, THE COUNTRY HAS HAD A POOR RAINY SEASON, AND MANY AREAS HAVE BEEN HIT BY DROUGHT. THE GOVERNMENT WILL PROBABLY HAVE TO IMPORT SUBSTANTIAL QUANTITIES OF MAIZE AND OTHER ESSENTIAL FOODSTUFFS NEXT YEAR. IN THE MEANTIME SOCIAL PROBLEMS ON THE LAND ARE COMPOUNDED BY THE RETURN OF MARGINAL WORKERS WHO HAVE BEEN UNABLE TO FIND WORK IN THE TOWNS.

9. AT PRESENT THERE ARE NO SIGN OF BREAKDOWN OF LAW AND ORDER. THE GOVERNMENT, THROUGH THE PARTY APPARATUS AND POLICE, HAS KEPT A STRONG HAND. BUT THERE HAVE BEEN SPORADIC DISTURBANCES, MANY NOT REPORTED IN THE PRESS, IN THE FORM OF LOCAL DEMONSTRATIONS BY STUDENTS AND OTHER FAMILIAR DISSIDENTS, AND THERE HAVE BEEN MANY CASES (HABITUAL AT THE END OF THE SIX YEAR PRESIDENTIAL CYCLE) OF PEASANTS INVADING PRIVATE OR PUBLIC LAND.

10. IN THIS ATMOSPHERE PEOPLE HAVE BEGUN AN ANXIOUS COUNTDOWN TO 1 DECEMBER WHEN PRESIDENT-ELECT DE LA MADRID ASSUMES OFFICE.

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MORE THAN EVER HE IS THE LIGHT AT THE END OF THE TUNNEL. IN HIS PUBLIC PRONOUNCEMENTS HE HAS INCREASINGLY DISTANCED HIMSELF FROM PRESIDENT LOPEZ PORTILLO, AND IN A RECENT SPEECH AT TIJUANA WAS READY IMPLICITLY TO ATTRIBUTE AT LEAST PART OF THE BLAME FOR MEXICO'S PRESENT MISFORTUNES TO THE PRESENT GOVERNMENT. CLEARLY HE MUST HOPE THAT SOME OF THE UNPOPULAR DECISIONS ON THE ECONOMY, IN PARTICULAR THE KEY IMF REQUIREMENTS, WILL BE TAKEN IN THE NEXT SIX WEEKS. HE MUST ALSO HOPE THAT PRESIDENT LOPEZ PORTILLO WILL NOT (AS IS SOMETIMES THE CASE WITH OUTGOING PRESIDENTS) TAKE SOME RASH AND IRRESPONSIBLE ACTION WHICH IT WOULD TAKE TIME AND EFFORT TO UNDO. ALL EXPECT THAT DE LA MADRID WILL MARK HIS ASSUMPTION OF OFFICE IN SIX WEEKS TIME BY A PROGRAMME OF NATIONAL RECOVERY WHICH WILL INCLUDE DECISIVE CHANGES IN ECONOMIC POLICY. THIS IS WHAT THE COUNTRY IS WAITING FOR.

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