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Fonds:	Records of the Office of the President
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PRESIDENT CLAUSEN
ITINERARY FILES

MEXICO 1982 1

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WBG Archives

Folder II - Field Visits

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MEXICO

Mr. Clausen's Visit to Tabasco - March 2 and 3, 1982

(The Governor of the State of Tabasco, Ing. Rovirosa Wade (wife Celia) would be receiving Mr. Clausen at Villahermosa, the state capital. Mr. Rovirosa is 63 years old, understands but does not speak English and a civil engineer by training. Before joining the previous administration as Minister for Water Resources, he was an eminent contractor and president of the Federation for Construction Industry.

As Secretary of Water Resources he had extensive dealings with the World Bank. We had made several irrigation loans and a loan for Mexico City Water Supply during his ministerial tenure.

Mr. Rovirosa is a popular governor and his six-year term will be expiring in December 1982. He has shown a great interest in tackling the development issues of the state and has had serious disagreements with PEMEX on preservation of the ecology of his state. His wife Celia is interested in child health and works with many voluntary organizations for ensuring basic amenities to the poorer sections of the population.)

A. Regional Airports Project

1. Mr. Clausen will arrive in Mexico at the Villahermosa, Tabasco, airport, and the next day will use the Minatitlan, Veracruz, airport. The construction of these airports was partially financed by a US$25 million loan in 1974 for six regional airports: Villahermosa, Minatitlan, Poza Rica, Tapachula, Tuxtla Gutierrez, and Los Mochis. These airports are in operation, except Los Mochis which will be opened in March 1982.

2. The Bank-financed project supported construction of runways, ramps, terminals, access roads, aircraft servicing facilities, air traffic control towers, and aids to navigation. The project upgraded airport capacity in important regional cities where previous airports were inadequate to handle the growing volumes of air traffic (15 percent per annum growth) and transport-category aircraft (the fleet of the two major airlines consists of about 100 DC9, Boeing 727, and DC10 aircraft).

3. The Government is improving and expanding other regional airports and has under review the relocation of the Mexico City airport which is overcrowded and uncomfortably close to densely populated areas. These activities are being financed by the Government, without Bank support.

B. State Development Program

4. Mexico, as Mr. Clausen knows, has a tradition of overcentralization in political and economic decision making. President Lopez Portillo has made a conscious effort of decentralization, and the Presidential candidate Miguel de la Madrid, as Minister for Programming and Budget, gave strong support to this program. Tabasco State provides a case study of what can be achieved by an imaginative and energetic Governor. The state officials would be making a pre-dinner presentation of how they visualize the problems and their efforts, partly supported by the Bank by a study and by a loan. Both these supports are summarized below.

5. The State of Tabasco, located on the Gulf coast in Southeast Mexico, was traditionally an agriculture and livestock area, one of the main suppliers of meat to the DF and an important producer of tropical crops, mainly bananas, sugarcane, copra, and cocoa. With the discovery in 1976 of large oil deposits in the area the state went through a traumatic shock of demographic, social, environmental and economic impact. The challenge is of avoiding an oil enclave-type growth, curbing the distortions caused by the heavy investments of PEMEX, and disseminating, as widely as possible, the opportunities provided by the exploitation of oil.

6. In 1979, at the Government's request, the Bank analyzed the effects of the oil boom on the development of Tabasco. The subsequent report 1/ was well received at the federal and state levels and the state government has since made an impressive effort to improve the statistical basis and the institutional framework for planning activities. The state planning committee (COPLADET) is one of the most successful of the local planning institutions (COPLADE's), established in every state in 1979.

The Second Urban Development Project, Loan 1990-ME of August 13, 1981

7. The Southeast region, including the ~~states of~~ Veracruz, Chiapas and Tabasco, is one of the areas granted highest priority by the Mexican Government, given the strong development potential of the region and the opportunity to couple oil activity with the exploitation of other resources of the region.

8. The sudden impact of oil also resulted in an important inflow of migrants to Villahermosa city and neighboring areas with a subsequent scarcity of housing and urban related infrastructure. The urban population has been growing at an annual rate of 7%.

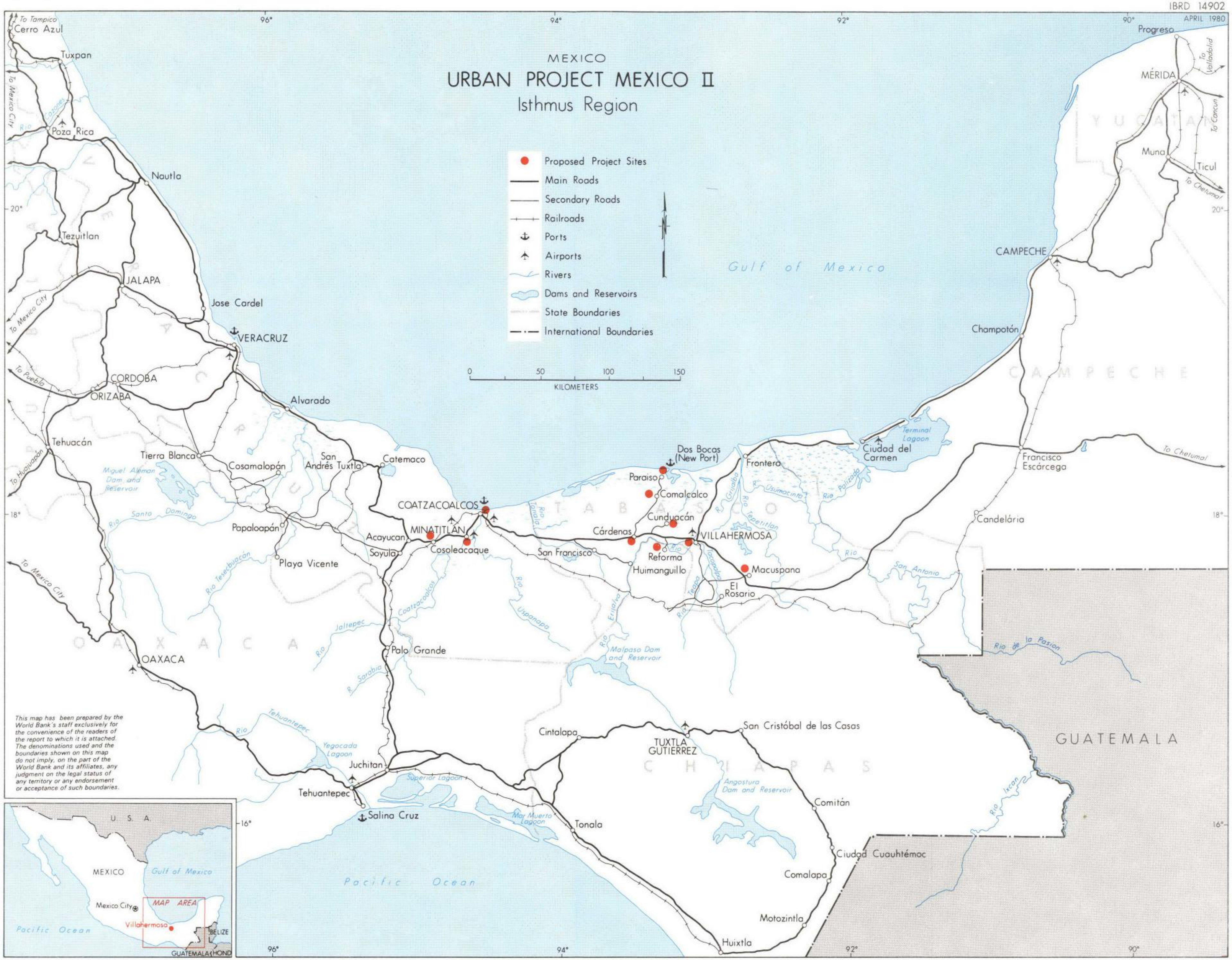
9. The region's potential for development and the mentioned problems prompted the government to request Bank's assistance for an urban development project in the Southeast states. The two attached maps explain the main activities being supported under the Project (IBRD 14902 and 14904).

1/ A copy of the Bank Report "Oil Impact on Regional Development: A Case Study of the State of Tabasco", along with Mr. Stern's comments, is available in the folder.

10. One of the main objectives of this project is to support the federal Government's efforts to decentralize planning, financial and implementation responsibilities to states and local institutions. In response to this objective, this project is being implemented mainly by local institutions, some of which were established specifically for the project. Technical assistance is programmed to strengthen the managerial, financial and planning capabilities of the different agencies. Significant efforts are being made to improve cost-recovery of the housing and water supply and sewerage services.

11. The US$164 million loan was approved in May 1981 and became effective in January 1982.

Mexico Division
February 11, 1982


IBRD 14902
APRIL 1980
MEXICO
URBAN PROJECT MEXICO II
Isthmus Region
Proposed Project Sites
Main Roads
Secondary Roads
Railroads
Ports
Airports
Rivers
Dams and Reservoirs
State Boundaries
International Boundaries
0 50 100 150
KILOMETERS
Gulf of Mexico
Pacific Ocean
GUATEMALA
To Tampico
Cerro Azul
Tuxpan
Poza Rica
Nautla
Tezuitlan
JALAPA
Jose Cardel
VERACRUZ
CORDOBA
ORIZABA
Alvarado
Tehuacán
Tierra Blanca
Cosamalopán
San Andrés Tuxtla
Catemaco
COATZACOALCOS
MINATITLAN
Acayucan
Soyula
Cosoleacaque
Papaloapán
Playa Vicente
San Francisco
Dos Bocas (New Port)
Paraiso
Comalcalco
Cunduacán
Cárdenas
Reforma
Huimanguillo
VILLAHERMOSA
Macuspana
El Rosario
Frontera
Ciudad del Carmen
Terminal Lagoon
Francisco Escárcega
Candelária
Champotón
CAMPECHE
MÉRIDA
Progreso
Muna
Ticul
To Valladolid
To Cancun
To Chetumal
Palo Grande
OAXACA
Juchitan
Tehuantepec
Salina Cruz
Cintalapa
TUXTLA GUTIERREZ
San Cristóbal de las Casas
Comitán
Ciudad Cuauhtémoc
Comalapa
Motozintla
Tonala
Huixtla
Miguel Aleman Dam and Reservoir
Malpaso Dam and Reservoir
Angostura Dam and Reservoir
Yegocada Lagoon
Superior Lagoon
Mar Muerto Lagoon
Rio de la Pasion
Rio San Antonio
Rio Usumacinta
Rio Palizada
Rio Tepetitlan
Rio Grijalva
Rio Coatzacoalcos
Rio Uspanapa
Rio Jaltepec
Rio Santo Domingo
Rio Tesechoacán
Rio Tehuantepec
R. Sarabia
Rio Ixcan
Rio Tonalá
Rio Teapa
To Mexico City
To Puebla
To Huajuapán
VERACRUZ
OAXACA
TABASCO
CHIAPAS
CAMPECHE
YUCATAN
20°
18°
16°
96°
94°
92°
90°
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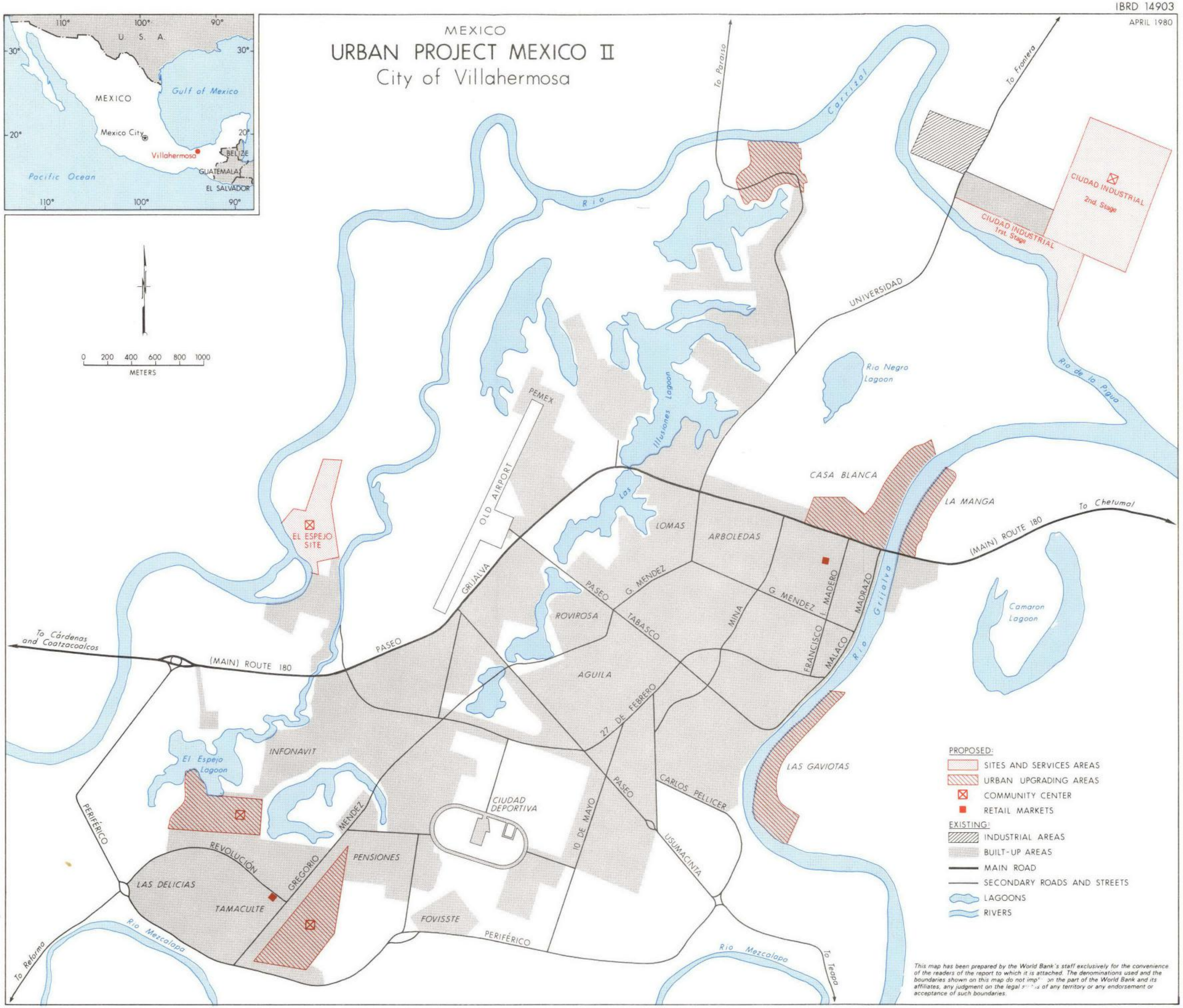
U. S. A.
MEXICO
Gulf of Mexico
Mexico City
MAP AREA
Villahermosa
Pacific Ocean
BELIZE
GUATEMALA
HOND



IBRD 14903
APRIL 1980
MEXICO
URBAN PROJECT MEXICO II
City of Villahermosa
U. S. A.
MEXICO
Gulf of Mexico
Mexico City
Villahermosa
BELIZE
GUATEMALA
EL SALVADOR
Pacific Ocean
110°
100°
90°
30°
20°
0 200 400 600 800 1000
METERS
To Paraiso
To Frontera
Rio Carrizal
CIUDAD INDUSTRIAL 2nd. Stage
CIUDAD INDUSTRIAL 1rst. Stage
UNIVERSIDAD
Rio de la Pigua
Rio Negro Lagoon
PEMEX
Las Ilusiones Lagoon
OLD AIRPORT
CASA BLANCA
LA MANGA
To Chetumal
(MAIN) ROUTE 180
LOMAS
ARBOLEDAS
EL ESPEJO SITE
PASEO G. MENDEZ
G. MENDEZ
GRIJALVA
MADERO
MADRAZO
Camaron Lagoon
ROVIROSA
TABASCO
MINA
FRANCISCO I. MADERO
MALACO
Rio Grijalva
To Cárdenas and Coatzacoalcos
PASEO
(MAIN) ROUTE 180
AGUILA
27 DE FEBRERO
INFONAVIT
El Espejo Lagoon
PASEO
CARLOS PELLICER
LAS GAVIOTAS
PERIFÉRICO
GREGORIO MENDEZ
CIUDAD DEPORTIVA
10 DE MAYO
USUMACINTA
REVOLUCIÓN
PENSIONES
LAS DELICIAS
TAMACULTE
FOVISSTE
PERIFÉRICO
Rio Mezcalapa
To Reforma
Rio Mezcalapa
To Teapa
PROPOSED:
SITES AND SERVICES AREAS
URBAN UPGRADING AREAS
COMMUNITY CENTER
RETAIL MARKETS
EXISTING:
INDUSTRIAL AREAS
BUILT-UP AREAS
MAIN ROAD
SECONDARY ROADS AND STREETS
LAGOONS
RIVERS
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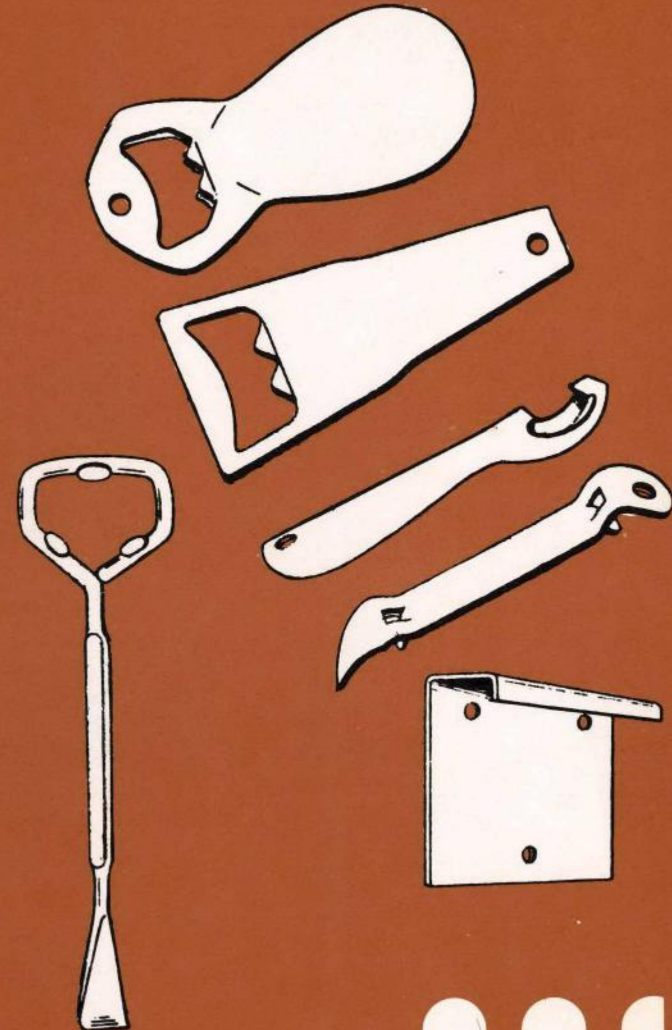
ENGRAPADORAS

Timbre de mesa

Sacagrapas

Abridores de botella, Cubetas, Latas y Botes



MODULO FABRIL, S. A.

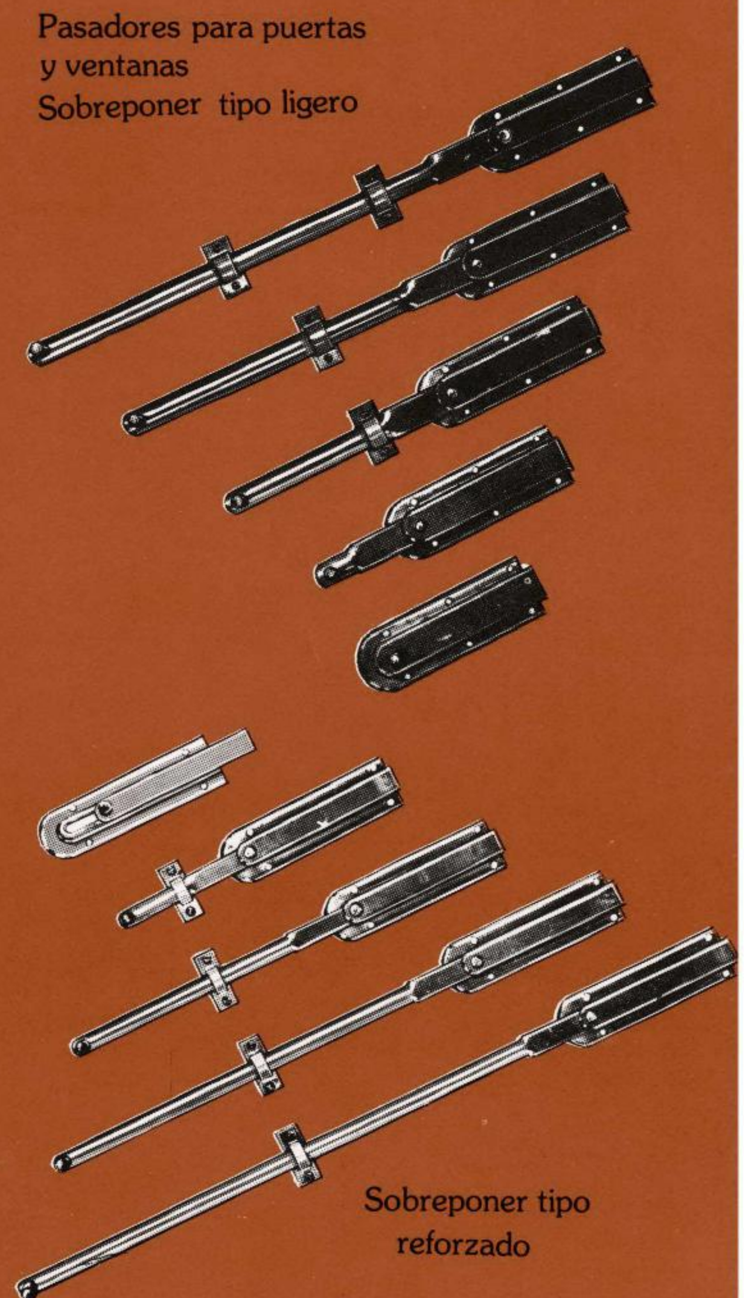
INDUSTRIALES EN METAL

MODULO FABRIL, S. A.

Calle 26 No. 2725 Zona Industrial Tels. 11-66-14 y 11-67-36
Guadalajara, Jal.


CM-CT Sencillo
y doble imán
Cierre
magnético
Resbalón
Sobreponer
Cierre resbalón
de lira ajustable
Resbalón de lira
Resbalón embutir
Escuadra ajustable
Pasador
sobreponer
mueble


Tubular, modelo 971 (de maroma)
Pasador placa ventanería
Pasadores embutir al
canto reforzado
Pasador embutir
al canto maroma
Pasador placa ventanería tubular
(modelo 965)


Pasadores para puertas
y ventanas
Sobreponer tipo ligero
Sobreponer tipo
reforzado

MEXICO

Agricultural Credit (FIRA) Projects

(On March 3, Mr. Clausen will visit a vegetable oil factory, owned by about 10,000 producers of copra, near the city of Villahermosa. This is a plant financed by FIRA, which has received substantial support from the World Bank, IDB and USAID since the 1960s. The main objectives of these operations have been to:

- set up a credit delivery system for Mexican agriculture, in which the commercial banks (private as well as publicly owned) take the primary risk of credit operations and rediscount their loans with FIRA.

  So far about 150 commercial banks participate in the program, annual levels of operations are in the region of US$1,100 million as term credit and US$900 million as credit for working capital;

- provide adequate incentives to commercial banks to lend to the rural sector (margins for their operation are adjusted periodically, and presently range from 2% to 4.5%);
- arrange for technical assistance, particularly to non-commercial farmers;
- provide crop and livestock insurance facilities; and
- promote formation of groups of smallholders and ejidatarios who are jointly and severally responsible to service the loans.

Further details on this program are summarized below:

1. The Bank has to date financed, through Agricultural Trust Funds (FIRA), seven agricultural credit projects in Mexico totalling US$925 million of which US$660 million have been disbursed. The overall objectives of the projects have been to support lending for crop and livestock development and for agro-industries and credit assistance for low-income farmers.

2. In order to stimulate lending to agriculture and induce greater participation of the private banks and financial institutions to finance credit needs of farmers, the Mexican Government established FIRA within the Bank of Mexico. FIRA is the common name for a group of three trust funds: (a) the Trust Fund for Crop, Livestock and Poultry Credit (FONDO); (b) the Special Agricultural Credit Trust Fund for short-term credits (FEFA); and (c) the Technical Asssistance and Loan Guarantee Trust Fund (FEGA).

Trust Fund for Crop, Livestock and Poultry Credit (FONDO)

3. FONDO was created in 1955 as a trust fund in the Bank of Mexico to encourage the private banking systems to participate more actively in financing the credit needs of the agricultural sector. The large differential margin between the lending rate to farmers and FONDO's discount rate to the participating banks has permitted higher rates of return on the private banks' invested capital. The private banks bear the risk of lending and the responsibility for collection, but their risks are greatly reduced by the development of the FONDO's regional offices and staff, which, in the past, carried out much of the technical analysis of prospective sub-borrowers and sub-projects.

4. Initiated with Government funds, the FONDO originally restricted its activities principally to short-term agricultural production credit to finance annual crop production and upkeep of livestock herds. The FONDO's resources were later augmented by loans from USAID and the Inter-American Development Bank (IDB) and it also began to discount longer term subloans for investments.

5. Since 1965, when FEFA was established, FONDO has rediscounted only short-term credits for crops, livestock, and agroindustrial production to private banks.

Special Agricultural Credit Trust Fund (FEFA)

6. The real movement into on-farm development lending occurred only after 1965, when the second trust fund (FEFA) was established within FIRA. This fund was established to channel foreign loans, such as those from the Bank, with corresponding counterpart funds in local currency, supplied by the Bank of Mexcio, for medium- and long-term lending to finance investments in agriculture, livestock, and agroindustries. During the first seven years of FEFA's operations, funds channeled through it for agricultural development were on a very modest scale, and only in 1973 did its annual lending program surpass US$50 million. The Bank played an important role in the growth of FEFA. It was the executing agency of six Bank credit projects, the on-going Seventh Credit Project and of credit components in other Bank-financed projects, totalling US$1,124 million. The Fifth and Sixth Credit Projects, executed during 1977/80, and the Seventh Credit Project which is now in process, helped to transform FEFA into the most important lending institution for agricultural development in Mexico. In addition to Bank loans, FEFA obtained IDB loans totalling US$164 million, agroindustrial loans from Chase Manhattan Bank for US$50 million, and from Bank of Montreal for US$150 million.

7. FEFA rediscounts medium- and long-term loans for agricultural livestock and agroindustries development to both the public and private banks. Total rediscounts during 1980 amounted to US$1,565 million, and its total outstanding rediscount portfolio at end-1980 amounted to US$1,445 million. Government equity in FEFA has been increasing steadily because the principal of external loans from the Bank and IDB is repaid by the Government and the local currency equivalent, deposited with the institution at the time of receipt of the external loans, is accumulated in FEFA as additional equity. Total FEFA equity at end-1980 was US$605 million. FEFA's lending program for 1981 was US$2,400 million with 55% designated for lending to low-income producers.

Technical Assistance and Loan Guarantee Trust Fund (FEGA)

8. FEGA was created in 1973 as a trust fund to defray to participating banks part of the cost of loan evaluation and technical assistance associated with lending operations to ejidatarios and other low-income farmers (up to 3% of the loan amount and, in special cases, up to 6%) and to issue guarantees to private banks for the recovery of loans to these beneficiaries.

Assistance to Low-income Producers

9. FIRA has established a special program to aid low-income producers; almost 30% of FIRA's past lending program has been channeled to this group. About 35% of the 1981 lending program (US$2,400 million) was earmarked for the low-income producers. Additionally, FIRA has supported the low-income producers through externally financed projects. Under the Fourth Agricultural Credit Project (Loan 910-ME of June 1973), about 20% of that loan was allocated to low-income farmers. This program was expanded

under the subsequent Agricultural Credit Projects, in which 47% of on-farm lending was allocated to low-income producers in the Fifth Project, 33% in the Sixth, and 50% was allocated to this group in the Seventh. FIRA has also been an active participant in Mexico's Integrated Program for Rural Development (PIDER), which would benefit some five million poor families in 130 micro-regions. The Bank has made three loans in support of PIDER, totalling US$405 million, of which US$88 million was allocated to agricultural credit through FIRA for low-income farmers. Furthermore, US$11.3 million of the US$56 million loan for the Tropical Agricultural Development, and US$108 million of the Rainfed Agricultural Development Project loan has been allocated to credit through FIRA, primarily for low-income producers. In addition, six loans (US$164 million) from the IDB have included credit through FIRA for low-income farmers.

Recuperation of Rediscounts

10. FIRA rediscounts are collected automatically from the participating banks through their accounts with the Bank of Mexico, and FIRA has virtually no overdues. Periodic reports received from the participating private banks on overdue subloans rediscounted by FIRA show that they are below 1% of the total outstanding loan portfolio. On medium- and long-term loans made through BANRURAL and rediscounted by FIRA, mainly to low-income producers and ejidatarios, overdues are estimated at 10% to 12%.

Organization and Management

11. The Bank of Mexico is the trustee of the Government for the three trust funds administered as FIRA. Two technical committees, one for FONDO-FEFA and the other for FEGA, are the governing bodies of the funds. These are composed of 10 members and each is headed by a senior official of the Ministry of Finance. Other members are the Secretary of SARH, representatives of the Bank of Mexico, Banco Nacional de Credito Exterior, ANAGSA, BANRURAL, the Mexican Banker's Association, and two members appointed by farmers' organizations. FIRA is managed by a Director, who is the Fiduciary Delegate, and is assisted by a Sub-Director General and five Sub-Directors (progamming and agricultural credit, finance, technical services, regional office systems, administration and control). Since its inception, FIRA has expanded its organization and has decentralized. It now has a central office in Mexico City, 9 regional offices, 37 state offices and 90 local offices. The Bank of Mexico, as trustee, provides FIRA with the required staffing, office facilities and administrative services.

Training and Demonstraton

12. In addition to its lending activities for agricultural production and development, FIRA operates training and demonstration farms engaged in applied agricultural research, production-oriented demonstrations and training activities. These are strategically located in the zones of major present or potential production throughout the country and can be considered as an important complement to the Government's research and extension services. FIRA also continously maintains training courses for its own and participating banks' agricultural technical staff. Additionally, FIRA complements the participating banks in providing technical assistance to low-income producers, and its technical staff provides some support in preparing, evaluating and supervising the farm development.

Mexico Division
February 14, 1982

MEXICO

THE PIDER PROJECTS

1. The PIDER program was established in 1973, with substantial technical inputs from the Bank, to focus public investment in well-defined regions with widespread poverty and with unrealized productive potential. PIDER's purpose is to help increase incomes, employment and living standards of the rural poor through comprehensive programs of productive support and social infrastructure investments.

2. The basic programming unit in PIDER is the micro-region. Micro-regions are areas of one or more contiguous municipalities in which there is a high degree of poverty and an underutilized productive potential.

3. To date, 130 micro-regions have been established, covering about half of the nation's rural poor. A typical micro-region has an area of 8,000 sq km, and a population (mostly rural) of about 13,500.

4. PIDER coordinates investments of the agencies in the micro-regions. PIDER accounted for an average of about 9.0% of total public investment in the rural areas during the period of 1977-1980. As of January 1980, PIDER had invested US$1.6 billion in these micro-regions; 44% was devoted to directly productive investments, 41% to productive supports, and 15% to social infrastructure investments.

5. PIDER was among the first programs in Mexico that was based on multi-year, multi-sectoral development and investment plans. The Bank has made three loans for this program. A loan for $110 million was approved by the Bank in May 1975 to assist activities in 30 micro-regions (PIDER I). A second loan of $120 million assisting development in 20 micro-regions was approved in July 1977 (PIDER II). PIDER III, for $175 million, was approved in July 1981. Besides these three loans from the Bank, IDB has made one loan ($40 million in 1975) and IFAD one loan ($20 million) in support of the program in Oaxaca in 1978. However, the PIDER program has been largely financed by government resources. Of late, investments in this program have aggregated to $1,000 million a year.

6. Under PIDER I and II, micro-region plans were prepared by the Secretariat of Programming and Budget (SPP) at the federal level, with the participation of micro-region staff who in turn worked with project beneficiaries to define priorities and strategies. This centralized approach was necessary to gain experience in programming and to ensure consistency while building the institutional capacity in the micro-regions.

7. Over the past three years, the Government has worked with considerable success to decentralize PIDER planning and execution to the state and local levels. At the micro-regional level, a development subcommittee, consisting of mayors, representatives of the rural communities selected by the beneficiaries, and technicians of the state and federal implementing agencies, has responsibility for:

a. short- and medium-term programming for the micro-region;

b. coordination and execution of the investment program; and

c. monitoring of performance, supervision of program operation, and beneficiary participation.

8. At the state level, a rural development subcommittee of the state economic development committee is responsible for integrating micro-regional plans into the state level plan and budget and for ensuring consistency with PIDER's nationwide standards. These committees also serve as fora for discussion among the various executing agencies, enabling better integration of work programs and priorities.

9. This new process is being tested in the four states included in the PIDER III project (Guerrero, Sinaloa, Yucatan and Zacatecas). In those micro-regions initial response is good, leading to greater community participation and more integrated efforts of the government agencies.

Bank Experience with PIDER

10. In 1978, the Mexican Government and the World Bank jointly undertook a mid-term evaluation of the first Bank loan (PIDER I). The report was done only four years after the beginning of PIDER, before most of the productive investments had reached full development. Therefore, most of the conclusions mentioned below are tentative. With the completion of PIDER I, a Project Completion Report which will assess its physical progress is currently under preparation. It will provide more solid - and quantitative - evaluation on PIDER impact.

11. PIDER has achieved an important institutional impact. Most specifically, PIDER has helped:

a) develop a flexible and efficient method to fund thousands of small projects;

b) coordinate, at both the federal and state levels, the investment activities of numerous executing agencies;

c) strengthen the activities of agencies involved in rural development; and

d) organize state-level development committees.

12. In general, the components which required least organization of beneficiaries and coordination among agencies for their operation (e.g., roads, electrification, schools) or which had short development periods and adequate technical support (e.g., small-scale irrigation, goat-keeping and bee-keeping) operated with few problems. Those requiring a high degree of beneficiary training or cooperative management (e.g., large livestock, rural industries, water supply) functioned at a less satisfactory level.

US Perception of the Program

13. There has been a great deal of international interest in the PIDER Program. President Carter visited and expressed his appreciation of the PIDER Program and its achievements. Favorable comments have also been made by the

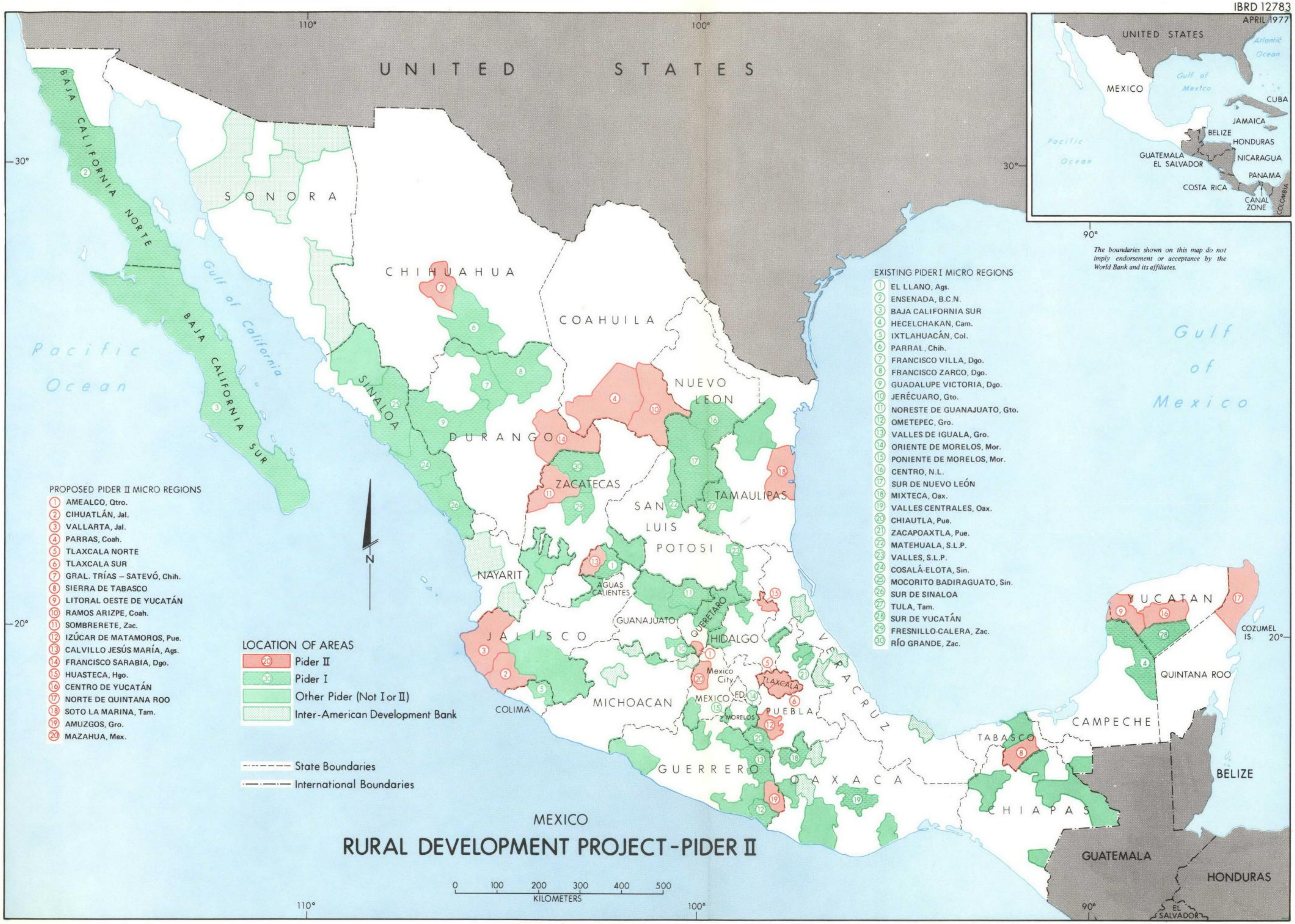
US Congress. US authorities have been particularly impressed with this rural development program because of its possible, far-reaching, implications on migration across the border.

Mr. Clausen's Program

14. The ejidos which Mr. Clausen will visit are located in two areas of the State of Tabasco: the coastal region, and the Sierra region which is in the "transition" zone extending from the coast to the mountains. PIDER started work in these areas in 1975. The Government will select ejidos that are representative of these regions and will furnish information and data during the visit.

Attachment: Map

Mexico Division
February 18, 1982


IBRD 12783
APRIL 1977
UNITED STATES
MEXICO
Gulf of Mexico
Atlantic Ocean
CUBA
JAMAICA
BELIZE
HONDURAS
Pacific Ocean
GUATEMALA
EL SALVADOR
NICARAGUA
PANAMA
COSTA RICA
CANAL ZONE
COLOMBIA
The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.
UNITED STATES
Pacific Ocean
Gulf of California
Gulf of Mexico
BAJA CALIFORNIA NORTE
BAJA CALIFORNIA SUR
SONORA
CHIHUAHUA
COAHUILA
NUEVO LEON
SINALOA
DURANGO
ZACATECAS
SAN LUIS POTOSI
TAMAULIPAS
NAYARIT
AGUAS CALIENTES
GUANAJUATO
QUERETARO
HIDALGO
JALISCO
COLIMA
MICHOACAN
MEXICO
Mexico City
FD
MORELOS
TLAXCALA
PUEBLA
VERACRUZ
GUERRERO
OAXACA
TABASCO
CHIAPAS
CAMPECHE
YUCATAN
QUINTANA ROO
COZUMEL IS.
BELIZE
GUATEMALA
HONDURAS
EL SALVADOR
110°
100°
90°
30°
20°
N
PROPOSED PIDER II MICRO REGIONS
1 AMEALCO, Qtro.
2 CIHUATLÁN, Jal.
3 VALLARTA, Jal.
4 PARRAS, Coah.
5 TLAXCALA NORTE
6 TLAXCALA SUR
7 GRAL. TRÍAS – SATEVÓ, Chih.
8 SIERRA DE TABASCO
9 LITORAL OESTE DE YUCATÁN
10 RAMOS ARIZPE, Coah.
11 SOMBRERETE, Zac.
12 IZÚCAR DE MATAMOROS, Pue.
13 CALVILLO JESÚS MARÍA, Ags.
14 FRANCISCO SARABIA, Dgo.
15 HUASTECA, Hgo.
16 CENTRO DE YUCATÁN
17 NORTE DE QUINTANA ROO
18 SOTO LA MARINA, Tam.
19 AMUZGOS, Gro.
20 MAZAHUA, Mex.
EXISTING PIDER I MICRO REGIONS
1 EL LLANO, Ags.
2 ENSENADA, B.C.N.
3 BAJA CALIFORNIA SUR
4 HECELCHAKAN, Cam.
5 IXTLAHUACÁN, Col.
6 PARRAL, Chih.
7 FRANCISCO VILLA, Dgo.
8 FRANCISCO ZARCO, Dgo.
9 GUADALUPE VICTORIA, Dgo.
10 JERÉCUARO, Gto.
11 NORESTE DE GUANAJUATO, Gto.
12 OMETEPEC, Gro.
13 VALLES DE IGUALA, Gro.
14 ORIENTE DE MORELOS, Mor.
15 PONIENTE DE MORELOS, Mor.
16 CENTRO, N.L.
17 SUR DE NUEVO LEÓN
18 MIXTECA, Oax.
19 VALLES CENTRALES, Oax.
20 CHIAUTLA, Pue.
21 ZACAPOAXTLA, Pue.
22 MATEHUALA, S.L.P.
23 VALLES, S.L.P.
24 COSALÁ-ELOTA, Sin.
25 MOCORITO BADIRAGUATO, Sin.
26 SUR DE SINALOA
27 TULA, Tam.
28 SUR DE YUCATÁN
29 FRESNILLO-CALERA, Zac.
30 RÍO GRANDE, Zac.
LOCATION OF AREAS
Pider II
Pider I
Other Pider (Not I or II)
Inter-American Development Bank
State Boundaries
International Boundaries
0 100 200 300 400 500
KILOMETERS
MEXICO
RURAL DEVELOPMENT PROJECT - PIDER II

MEXICO

Tropical Agricultural Development Project

(Mr. Clausen's program includes a visit to Huimanguillo 1/ Station on Wednesday, March 3. This is the site for one of the six pilot projects being assisted under a $56 million Bank loan for Tropical Agricultural Development made in April 1978. The project is in support of a pilot experiment to promote low-cost agricultural development in the humid tropics of Mexico. Presently 17 million hectares are under agriculture in the country, 10 million of which is unirrigated. If the pilot project succeeds--and indications are it is likely to--the cultivation could be expanded in about 8 million hectares of high rainfall areas in the tropics.)

Importance and Challenge of the Tropics

1. Mexico's humid tropical areas comprise 8.3 million ha of arable lands with medium to high agricultural potential (map IBRD 13209 attached). Most of this area is used far below its potential and nearly 3.6 million ha are virtually unused. Mexico's cropped area is currently about 17 million ha, mostly heavily populated and development of the tropics is a must in a strategy for extending the agricultural frontiers of the country.

2. Agricultural production in the humid tropics is presently characterized by extensive land use with low yields and a generally low level of farm management, processing, marketing and agricultural services (extension, research, credit). Much of the land is also poorly drained and subject to flooding. As a result, a majority of the rural families are at subsistence levels. Livestock production both from beef and dual-purpose beef/milk operations is the most widespread activity. About 7 million head, or about 25% of the national herd, are located in the humid tropics and represent an important source of supply to the Mexico City market. Corn, beans, and sugar account for 90% of the cropped area. Average yields are low but information and experience exists that could be applied to increase yields significantly. The main constraints for development of intensive agriculture are: (i) frequent flooding and poor drainage of much of the flat, fertile soils; (ii) lack of data on many aspects of agricultural production; (iii) lack of support services, particularly a well integrated extension service; (iv) generally inefficient farmers' organization and on-farm management; and (v) unclear land use rights.

1/ Now changed to Tropical Agriculture College in Cardenas (Tabasco), assisted by the Bank under two loans: Tropical Agriculture and PLANAT.

The Bank's Contribution

3. Between 1972 and 1975, the Government undertook a major review of national agricultural and water resources that was financed by the UNDP and for which the Bank was the executing agency. The conclusions were published as the National Water Plan Study of 1975. It identified the potential of tropical agriculture and suggested a development strategy for the humid tropics.

4. Thereafter, a pilot project was prepared with involvement of the Bank and is being supported by the $56 million loan of April 1978. Progress is satisfactory. The Mexicans have particularly appreciated the contribution of the Bank in design of the comparatively low-cost drainage works. The Government has done a good job of coordinating the several activities (land reforms, extension services, linkage of research with farm development, delivery of key inputs and technological package). However, it is still too early to come to firm conclusion on expansion of the test program to cover the entire potential area of benefit within the foreseeable future.

The Project

Date of the Loan:	September 27, 1978
Project Cost:	US$149 million
Loan Amount:	US$56 million
Expected Completion Date:	December 31, 1983

Project Description:

(i) development of six pilot projects of about 4,000 ha each that are representative of the tropical lowlands;

(ii) improvement and expansion of agricultural and livestock extension programs in the tropics; and

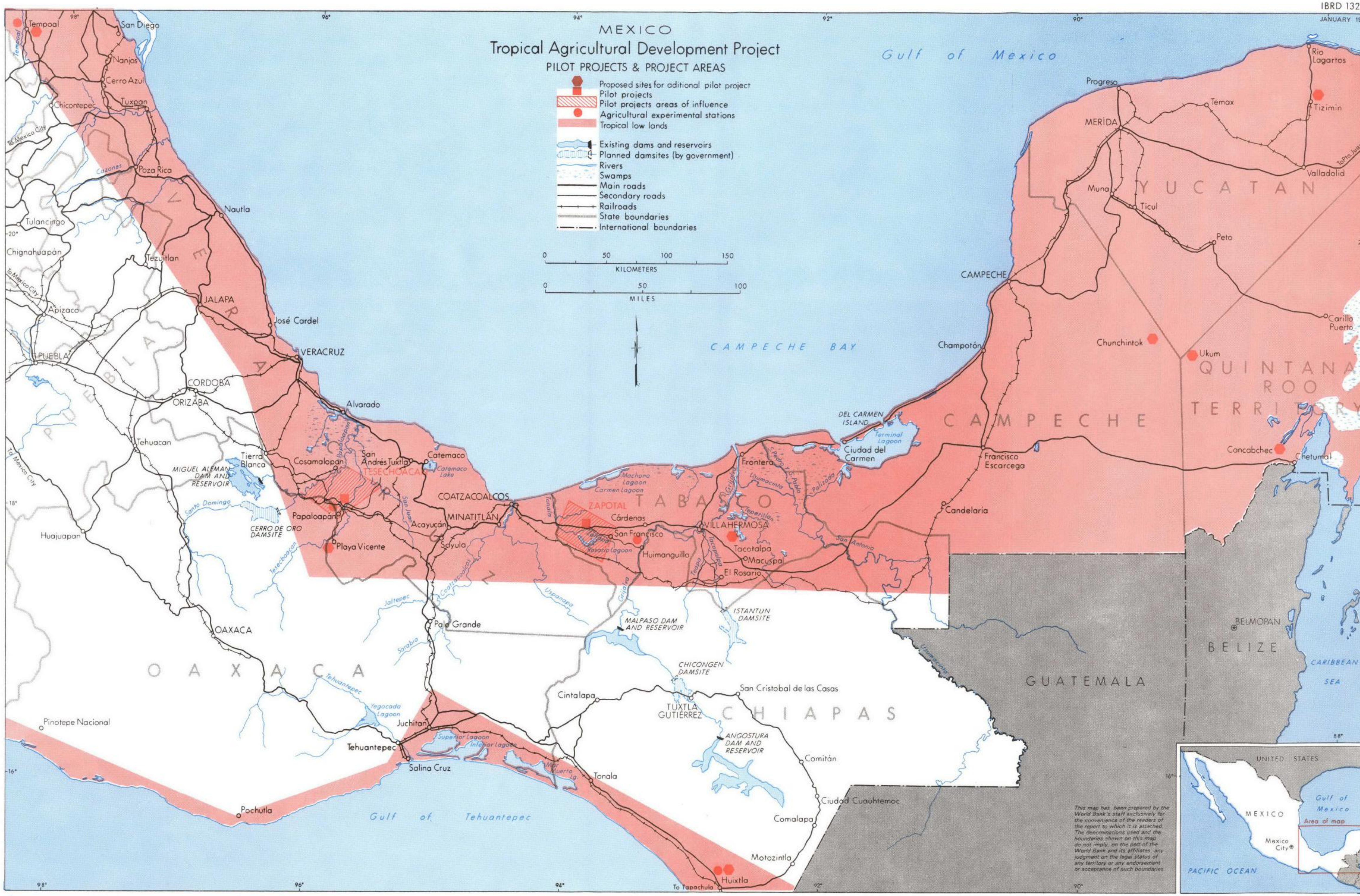
(iii) strengthening agricultural extension services in tropics.

Benefits: Direct benefits will go to 3,000 smallholders and cooperative farmers, the majority of which have incomes below the relative poverty level in Mexico.

The Huimanguillo Station which Mr. Clausen will visit is directed at adaptive research for the climate and soil conditions of the region. It provides an important link between basic research and extension works of the project area. This station is one of a series of test cases where INIA (crop research agency), INIP (livestock research agency), INIF (forestry research agency) and agricultural extension service are all located.

Attached: Map IBRD 13209

Mexico Division
February 16, 1982



IBRD 13209
JANUARY 1978
MEXICO
Tropical Agricultural Development Project
PILOT PROJECTS & PROJECT AREAS
Proposed sites for aditional pilot project
Pilot projects
Pilot projects areas of influence
Agricultural experimental stations
Tropical low lands
Existing dams and reservoirs
Planned damsites (by government)
Rivers
Swamps
Main roads
Secondary roads
Railroads
State boundaries
International boundaries
0 50 100 150
KILOMETERS
0 50 100
MILES
Gulf of Mexico
CAMPECHE BAY
Gulf of Tehuantepec
CARIBBEAN SEA
YUCATAN
QUINTANA ROO TERRITORY
CAMPECHE
TABASCO
VERACRUZ
PUEBLA
OAXACA
CHIAPAS
GUATEMALA
BELIZE
BELMOPAN
TESECHOACAN
ZAPOTAL
MIGUEL ALEMAN DAM AND RESERVOIR
CERRO DE ORO DAMSITE
MALPASO DAM AND RESERVOIR
ISTANTUN DAMSITE
CHICONGEN DAMSITE
ANGOSTURA DAM AND RESERVOIR
Tempoal
San Diego
Nanjos
Cerro Azul
Tuxpan
Chicontepec
To Mexico City
Poza Rica
Nautla
Tulancingo
Chignahuapán
Tezuitlan
JALAPA
José Cardel
VERACRUZ
Apizaco
PUEBLA
CORDOBA
ORIZABA
Alvarado
Tehuacan
Tierra Blanca
Cosamalopan
San Andrés Tuxtla
Catemaco
Catemaco Lake
COATZACOALCOS
MINATITLAN
Acayucán
Sayula
Papaloapan
Playa Vicente
Huajuapan
Cárdenas
San Francisco
Huimanguillo
VILLAHERMOSA
Tacotalpa
Macuspana
El Rosario
Frontera
Ciudad del Carmen
DEL CARMEN ISLAND
Terminal Lagoon
Machona Lagoon
Carmen Lagoon
Candelaria
Francisco Escarcega
Champotón
CAMPECHE
Progreso
MERIDA
Temax
Tizimin
Rio Lagartos
Valladolid
Muna
Ticul
Peto
Carillo Puerto
Chunchintok
Ukum
Cancabchec
Chetumal
Pale Grande
OAXACA
Cintalapa
TUXTLA GUTIERREZ
San Cristobal de las Casas
Comitán
Ciudad Cuauhtemoc
Comalapa
Motozintla
Huixtla
To Tapachula
Tonala
Juchitan
Tehuantepec
Salina Cruz
Superior Lagoon
Inferior Lagoon
Yegocada Lagoon
Pochutla
Pinotepe Nacional
This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.
UNITED STATES
MEXICO
Mexico City
Gulf of Mexico
Area of map
PACIFIC OCEAN

Rainfed Agricultural Development
Program (PLANAT)

(On March 3, Mr. Clausen will visit the Tropical Agricultural College (CSAT) in Cardenas, Tabasco. This institution has been expanded to train research and extension staff for one of Mexico's most innovative programss--the Rainfed Agricultural Development Program (PLANAT))

Rainfed Agriculture

Rainfed agriculture, while accounting for about two-thirds of the cropped area and providing livelihood to 87 percent of all farmers, contributes less than 50 percent of the value of agricultural output. Low productivity in the non-irrigated croplands has contributed to glaring rural poverty, massive rural underemployment and heavy migration to urban areas.

The low productivity of rainfed zones is in sharp contrast with the potential of these areas. About 7 million ha (two-thirds of the rainfed lands cultivated) have good soils and adequate and reliable rainfall 1/ to support intensive cropping using known technologies. Most of this land is now planted in maize with an average yield of only 1.4 tons per ha; with adoption of modern farming methods, it is possible to increase production two- or three-fold without any real risk of depleting the land resources. Similar potential exists for increasing production of other crops. A significant potential also exists for expanding the area under rainfed agriculture. The Government has estimated that with suitable incentives, the area devoted to intensive rainfed cropping could be doubled to about 20 million ha.

Government Strategy

The Government recognizes the problems and prospects for strengthening rainfed agricultural production; it has launched a major initiative--the Rainfed agricultural districts program (PLANAT). PLANAT is designed to increase agricultural production through several coordinated actions:

a) Promotion of new farm technologies through strengthened farm extension services and better linkage with applied research;

b) Increased availability of inputs; hybrid seeds, fertilizer, credit, machinery; and

c) Provision of necessary rural infrastructure (feeder roads, small drainage systems, soil conservation works).

These actions are carried out at the local level through a rainfed agricultural district--a group of contiguous municipalities in a state--headed by a district development officer responsible for supervising extension, research, and other activities of the Secretariat of Agriculture. The agricultural staff and other development agencies (credit, seeds, and fertilizers for example) at the district and state level work together to develop the agricultural potential in unirrigated lands covered by the program.

Bank Role

The Bank assisted the Mexican officials in the design of the program. The Bank made a $280 million loan in 1981 to support the strengthening of the national research and extension program, staff training (such as being conducted at the College in Cardenas to be visited by Mr. Clausen), and intensive application of the Rainfed Districts program in 9 of the 124 districts established to date. Three of these districts cover the zone near Villahermosa and Coatzacoalcos through which Mr. Clausen will travel.

Mexico Division
February 19, 1982

Industrial Ports Program

(The Government has proposed a brief presentation of their Industrial Ports Development Program for Mr. Clausen in the afternoon of March 3, 1982; this note briefly explains the Program.)

Background

1. In 1978, the Government established a unit reporting directly to the President of Mexico to draw up priorities and general plans for investments which would be of long-term benefit to the country. This unit, headed by former Secretary of Finance and Credit, Lic. Moctezuma (now head of PEMEX), undertook a study of possible investments which would facilitate decentralization of economic activities from the Central Highlands to the coastal regions in order to make better spatial use of Mexico's territory and of its natural resources. It published a comprehensive report proposing investments in four port areas to provide the necessary infrastructure for new industrial development which would attract economic activity to the two coastal regions.

The Program

2. In general terms, the proposed industrial ports program includes the following:

(a) at Altamira on the Gulf coast, about 15 km north of Tampico, an entirely new port is to be developed on about 60 sq. km of flat, barren terrain adjacent to a straight, sandy coast-line. Major steel industries, grain import and food processing facilities, petrochemical and aluminum industries are expected to be located on this site. Several Mexican and foreign entrepreneurs have expressed interest in locating heavy industries near the proposed port;

(b) at Lazaro Cardenas on the Pacific coast, an existing port at the Las Truchas steel plant is to be expanded to accommodate food processing and chemical plants, ship construction and repair facilities, and steel based industries. The Bank assisted Las Truchas steel-plant is being expanded to 2.5 m tons capacity. With the cooperation of Sumitomo metals, a large steel tube factory is under construction. The Bank's assistance has been sought for a Foundry/Forge plant for which a Japanese group will provide equity and loan capital which, with EXIM Bank of Japan loans, would supplement a Bank loan. (The Bank is not committed to appraise the project. A decision would be taken after the final feasibility study is completed).

(c) at Laguna de Ostion on the Gulf coast, north of Coatzacoalcos, an entirely new port is to be constructed in presently unused swamp and lagoon areas adjacent to the coast for major oil terminals and petrochemical industries (a visit to this site on March 3 is included in Mr. Clausen's program); and

(d) at Salina Cruz on the Pacific coast, near an existing general cargo port, a new oil terminal is to be constructed, and related industrial facilities are to be accommodated on coastal lands to be developed nearby. This deep sea port will significantly reduce cost of shipping oil to Japan.

3. The industrial ports program was endorsed by Government in 1979 and construction of some elements--access-channels, connecting roads, railroads, water supply, and urban servicess--was begun at the four sites. The Government estimates that more than US$2.5 billion equivalent would be required for investments in infrastructure in the four port areas between 1980 and 1985.

4. The Government and the Bank agreed that the Bank could best assist the program by participating in, and helping to finance, the planning and review of pre-investment studies. A $14 million project preparation loan was made in May 1981. The project provides planning and management advisory services in program formulation and design, and includes studies, detailed engineering, and related field and laboratory work for the sector as well as individual components of the program. The proceeds of the loan will be used to finance the services of consultants and equipment and materials required for their services. The loan would also finance detailed engineering for subprojects analyzed in the feasibility studies that prima facie are found to be technically and economically viable.

Progress

5. Mexican and Bank staff have worked closely in defining the scope and budget of the required preinvestment work and about 40 percent of the loan funds have been allocated to specific tasks. A Government interministerial working group is reviewing the overall program to identify the areas in which further Bank advice and finance would be most useful. A number of projects could result from these studies. While the Bank is not committed to finance any downstream project, there is a good possibility for a co-financed ports/urban development project within the next three years.

Mexico Division
February 16, 1982

MEXICO: Discussions with PEMEX on March 3, 1982--
Oil Sector Developments and Issues

(Mr. Clausen has been invited to a luncheon discussion with PEMEX on March 3. The lunch will be followed by a quick tour of PEMEX installations at Coatzacoalcos, Pajaritos, Cangrejera and Minatitlan. These include oil refineries and petrochemical complexes.

Some of the officials likely to be present during the luncheon discussion are:

The head of PEMEX Lic. Julio Rodolfo MOCTEZUMA Cid (age 54 years, speaks little English), was the minister for finance in the earlier years of the Lopez Portillo Administration. Mr. Moctezuma is a lawyer by training and has served in several economic ministries since 1964. He has been instrumental in developing the Industrial Ports Development program and replaced Mr. Diaz Serrano as the Director General of PEMEX in 1981.

Finance Director of PEMEX, Lic. Antonio ENRIQUEZ SAVIGNAC, is an impressive personality and fluent in English. Formerly he was head of the tourism development organization (FONATUR) and also, for a brief period, Deputy Minister for Tourism. Immediately before joining PEMEX in June 1981, he was a director in the second largest commercial bank of Mexico--BANAMEX.

The planning director Lic. Gilberto ESCOBEDO (speaks English), is a graduate in economics and has served in Bank of Mexico and the Ministry for Finance, the latter as Director General for credit under Moctezuma.

Issues

- A critical issue for Mexico is to determine the optimum rate of oil exploitation. Mr. Clausen may wish to probe the PEMEX officials on their perception of this policy.

- An issue that several Bank reports have raised relates to the wisdom of the massive ongoing investments in petrochemicals, at a time when the global market is not growing fast enough to absorb all the new production, and Mexico is short of capital. While these investments enable fuller utilization of oil by-products, petrochemical industries do not generate employment and absorb large amounts of scarce resources during the construction phase.

- Finally, PEMEX perception of the export prospects for crude oil and natural gas--both of prices and quantity--would be useful. I believe PEMEX is reported to be negotiating with US firms a doubling of their gas purchase contract.

A brief background description on the 'oil' in Mexico and its location marked on maps follows.)

1. Since 1977, Mexico has become a major oil country; in October 1981, the state-owned oil company, PEMEX, raised its proven reserves to 72,000 million barrels, an increase of 25% over 1980; potential reserves are estimated at 200,000 million barrels (the figures include oil and natural gas); this puts Mexico among the top four oil countries in the world (after Saudi Arabia, USSR and Iran).

2. Domestic production of oil and gas is currently around 3.5 million barrels/day (bbl/day), below technical extraction capacity, which is estimated at about 5 million bbl/day. About two-thirds of total production is absorbed by domestic demand; the rest, about 1.1 - 1.3 million bbl/day, is exported. To prevent excessive depletion of reserves, as well as in order to avoid an undesirable degree of dependence on oil, an export ceiling of 1.5 million bbl/day has been set. The ceiling has never been reached in practice, and it is unlikely that market conditions will generate pressures for it to be surpassed in the immediate future.

3. The expansion of extraction and refining capacity has been made possible by a massive investment program, which in 1980 accounted for one-third of total public investment. A substantial pipeline network and several plants for the production of basic petrochemicals have been put in place (two maps attached). Even so, the oil industry is currently facing two major technical constraints: first, Mexico has traditionally exported heavy (Maya) and light (Isthmus) crudes in a 50-50 mix; but recent market developments have called for a higher proportion of the light crude. Availability of light crude may set the limit to Mexican oil exports at the current prices. Second, the lack of adequate loading ports has made the use of offshore loading buoys necessary, with the result that loading operations are frequently interrupted in bad weather. Both constraints are having an unfavorable impact on oil exports for the current year (estimated at $16 billion in 1982), and will directly affect the current account deficit and the amount of foreign borrowings.

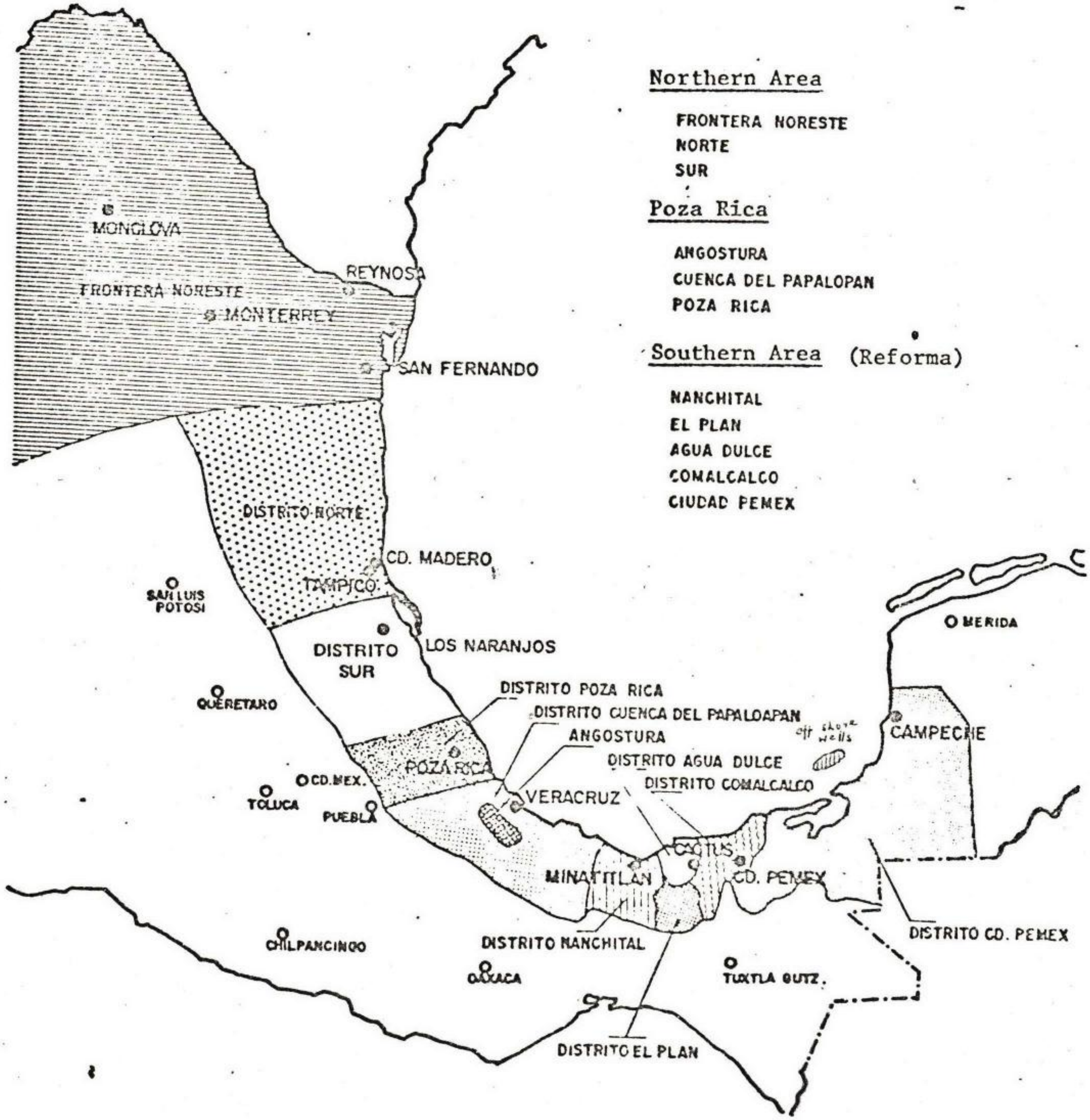
4. The Mexican economy has become heavily dependent on oil, although to a lesser extent than other oil-exporting countries. Oil revenues have made it possible to sustain rapid GDP growth over the last three years, but they have brought about undesirable side-effects: first, higher incomes (partly from oil) have exerted pressure on domestic demands, thus contributing to domestic inflation; second, high domestic demand and an overvalued currency have discouraged non-oil exports, which are expected to show zero growth in 1981-82; third, oil revenues have removed to a large extent the need for strict fiscal management, allowing the Government to sustain a high rate of growth of public expenditures. Finally, the presence of oil has resulted in subsidization of domestic oil products, encouraging high energy consumption and new investments towards oil-intensive activities.

5. The Administration is aware of these problems, and there is evidence that the President has committed himself to start a reversal of past trends: thus, investment in the oil sector is to be cut by 50% in 1982; the public sector deficit for 1982 has been set at less than the actual deficit for 1981, which represents a 30% reduction in real terms; finally, the prices of gasoline and diesel were roughly doubled in December 1981 (gasoline from 2.8 pesos/liter to 5.0 pesos/liter for regular and from 7 pesos/liter to 10 pesos/liter for premium; diesel from one peso/liter to 2.5 pesos/liter.

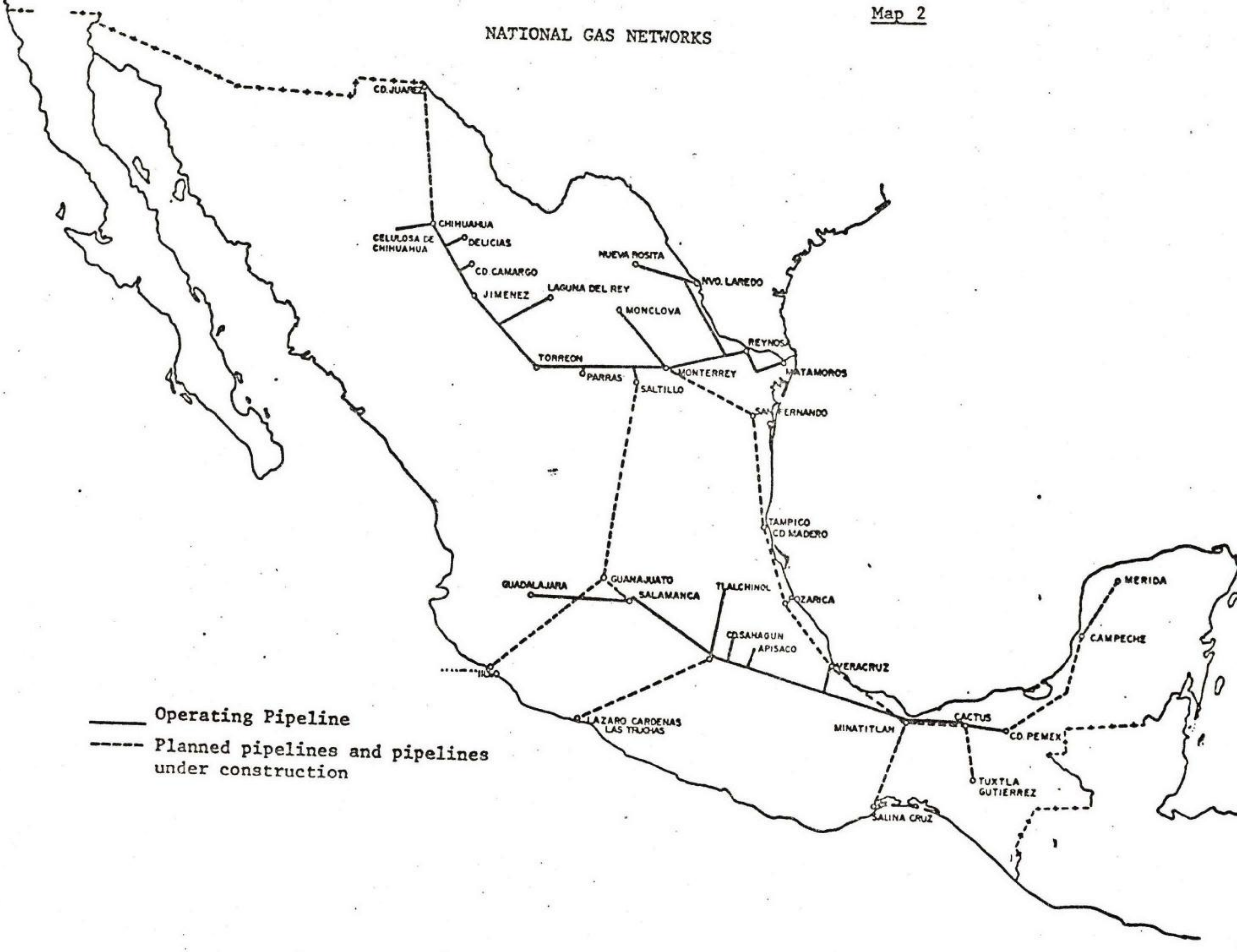
Attachments: 2 maps

Mexico Division
February 16, 1982

OIL AREAS AND DISTRICTS



NATIONAL GAS NETWORKS



——— Operating Pipeline

- - - - Planned pipelines and pipelines under construction

MEXICO: Mr. Clausen's meeting on March 4, 1982, in Guadalajara, with officials of PAI (Program for Assistance to Small/Medium Industry), and with commercial bankers and entrepreneurs participating in the Program.

Background

1. Mr. Clausen's visit in Guadalajara will emphasize the Program for Assistance to Small and Medium Industry (PAI), one of the largest and most innovative IDF (Industrial Development Finance) projects targeted at Small- and Medium-Scale Industry (SMI). PAI is one of three IDF programs in Mexico that have benefitted from seven Bank loans totaling $547 million:

a) PAI - two loans totaling $147 million -

The program includes four components;

(i) Loans for fixed investment and working capital;

(ii) Minority equity investments;

(iii) Industrial estates and equipment leasing; and

(iv) Technical assistance to enterprises.

INCLUDES POLLUTION CONTROLS!

b) Industrial Equipment Fund in the Bank of Mexico (FONEI) - 4 loans totaling $360 million. Finances industrial development projects with export potential or that substitute priority imports.

c) Small- and Medium-Scale Mining Project - One loan for $40 million. The project provides: (i) medium- and long-term credit for fixed assets and for developing known ore reserves; (ii) equipment leasing; (iii) mineral benefication plants to process mine output from small producers on a contract basis; and (iv) technical assistance.

2. While the three programs have varying orientations, the Bank support for them is part of an overall strategy to increase employment and industrial output through private initiative and by helping to strengthen the capacity of Mexico's commercial banking system to assist a wider variety of client. Each program also includes significant measures to encourage deconcentration of industrial activity from the greater Mexico City urban area.

JORGE TAMAYO
FRANCISCO SUAREZ

Program for Assistance to Small- and Medium-Scale Industry (PAI)

3. Small and medium industry (SMI) accounts for nearly half of industrial employment and about 40 percent of industrial value added in Mexico. Recognizing the importance of small- and medium-scale enterprises in the economy and the potential of these industries to contribute to the goals of Mexico's industrial strategy 1/ (namely, to strengthen the industrial base, produce basic goods, and generate employment in less-developed areas), NAFINSA established an innovative assistance program, PAI. PAI is a balanced program consisting of four components: credit, equity investment, leasing, and technical assistance.

FOMIN
FOGAIN
FONEP - STUDIES

CREDIT

THE MOST IMPORTANT.

4. FOGAIN, NAFINSA's Trust Fund for Guarantee and Development of Medium- and Small-Scale Industry, rediscounts fixed asset loans made by commercial banks, and places special emphasis on financing industries located outside of the greater Mexico City Metropolitan area. Loans to industry in the Mexico City area are limited to expansion of existing capacity and amount to only 10 percent of FOGAIN's activity.

5. In the first half of 1981, FOGAIN financed about US$300 million in credit for nearly 4,000 enterprises. Lending by sector was as follows:

INT RATE RANGE 20% TO 34%

Sector	%
Intermediate Goods	58
Consumer Goods	32
Capital Goods	10

FOGAIN's lending experience has been satisfactory considering the risk associated with promotion of small enterprises. Latest statistics show only about 0.5 percent arrears over 90 days.

6. Interest rates for industrial enterprises vary from 20 to 34 percent per annum, depending on the size of the enterprise, the type of product manufactured, and the location of the plant. Loans are granted at fixed rates, and the lending rate for new loans is adjusted quarterly in parallel with the change in the weighted average cost of borrowing by commercial banks (the ACF index). This adjustment mechanism was introduced in January 1982 after extensive consultations with the Bank.

7. The adjustment mechanism agreed in 1980, when the most recent PAI loan was made, called for periodic revision of the lending rate to reflect changes in the ACF index. The high domestic interest rates in Mexico pushed up the ACF rapidly, and by April 1981 a sharp increase

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1/ Articulated in the National Industrial Development Plan of 1979.

in lending rates of several percentage points became necessary. However, the Government was unable then to adjust the rates and secured Bank's agreement to freeze the Bank's loan until such time as the increases would become politically feasible. After prolonged discussions, the lending rates were increased from the original 14 - 21 percent to 20 - 34 percent in January 1982.

RISK CAPITAL

8. FOMIN, NAFINSA's National Fund for Industrial Development, makes minority equity investments, or loans convertible into equity, to small and medium enterprises. FOMIN finance is increasingly being provided along with FOGAIN term credit to make a substantial and balanced contribution to SMI expansion. FOMIN has been successful in introducing convertible lending in Mexico; such loans now account for over 20 percent of FOMIN's operations.

9. FOMIN's portfolio expanded by 57 percent in the 12 months ending June 30, 1981, to a total of nearly US$30 million representing investment in 87 enterprises. With growth, FOMIN has strengthened its evaluation capabilities and has improved the quality of its portfolio. About 80 percent of the portfolio represents investments that are operating profitably. The balance is represented by firms with operating losses and firms that have ceased operations mostly among FOMIN's early ventures. Considering the overall risk associated with small enterprises and the development goals of FOMIN, the operational results appear to be satisfactory.

INDUSTRIAL ESTATES (INDUSTRIAL PARKS, i.e.)

10. FIDEIN, the Fund for Industrial Estates and Commercial Centers, develops industrial estates, and constructs factory buildings for lease or sale. FIDEIN has established 13 industrial estates in 12 states, promoting decentralization and rational land use and efficient grouping of industry to take advantage of economies of scale in providing services and promoting subcontracting.

11. As FIDEIN gains experience in the industrial estates program it has plans to diversify its operations to include provision of common services in estates (such as data processing, canteens, repair facilities), equipment leasing, and to promote small-scale industry in the estates by subdividing buildings to allow for multiple users.

INFOTEC

TECHNICAL ASSISTANCE

12. PAI includes a program of "industrial extension" for SMI's in which over 100 extension agents perform the following tasks:

a) Promotion and dissemination of information on institutions and services available to assist SMI.

How define "medium" & "small"?

profits?

New industry emphasis in south west.

b) Direct Technical Assistance by helping entrepreneurs identify, study, and resolve the important constraints faced by their businesses;

c) Referral of entrepreneurs to other specialized institutions which can provide assistance or training;

d) Training of staff of industries and commercial banks using short courses and seminars; and

e) Group Action to promote associations of SMI that would cooperate to exchange information and make joint marketing and purchasing arrangements.

13. The PAI Program is a blend of assistance--finance, technical assistance, and infrastructure--to support the development of small and medium enterprises. The Bank has contributed significantly to the development of each agency, the closer integration of their operations, and to the innovations of subordinated credit and extension.

Mexico Division
February 19, 1982

El Secretario de Hacienda y Crédito Público

y la señora de Ibarra

se complacen en invitar al Sr. A. W. Clausen

y señora

a la cena que en su honor

ofrecerán en la Hacienda de los Morales

el próximo 5 de marzo a las 20:30 hs.

R.S.V.P. Salón Los Arcos

585-50-00

Mr. Clausen, Your views on role of private business, of private foreign investment, private bank financing and co-financing?

I refuse to divide my world into private vs. public sectors. Real life of nations is much too complex for such a simplification.

Of course there are those who work for progress, and then there are those who are indifferent. Those that represent the forces of modernization and those that oppose them.

Your country is a good example of what I am saying. In the last few days I had a crash course in your programs for rural and urban development. Your government not only used the money borrowed from the World Bank, but its own fiscal resources to finance an impressive array of investments undertaken by private entrepeneurs and supported also by private banks.

Then, your country has the record of the government providing the infrastructure and an environment which helped the private sector to invest and expand the production base. I believe that in the past several years private investment in Mexico has been gaining at 15% annually in real terms, a very good record. This joint effort of public and private enterprise -national as well as foreign- is most impressive.

600 AA
LOAN

admin

External pressures
Inflation —

Restructuring the
Int'l system

world oil imports

Aid ~~will~~

High rates of interest

Crisis — of the 30's

External debt —
Pol Rea
Costa Bolivia

We are passing through a difficult period in man's history. In the language of Dickens, I could say:

It is the best of times, it is the worst of times,
It is the age of wisdom, it is the age of darkness,
It is the Spring of hope, it is the Winter of dispair.

For the first time we have access to technology to conquer hunger, to banish illiteracy and improve the quality of life. We have a pool of financial and human resources, if fully harnessed, would help us achieve these lofty objectives. Yet, in real life we confront factors that militate against a concerted effort in this direction.

We are passing through an age of budgetary austerity, in developing as well as developed countries. The pool of aid funds is just not expanding globally, and, I have the impression, that no amount of rhetoric is going to change this picture over the short-term.

Therefore, purely as a practical course, I have suggested that we take action on several points simultaneously. One. We have to keep on explaining the case for ~~soft~~ CONCESSIONAL *aid for the poorest. Two. We have to mobilize as much private ~~bank's~~ resources for financing development as possible - and your country has been doing this rather successfully. Finally, to the extent feasible, we encourage the* *private business community to play a constructive role in fomenting growth with equity.*

DRAFT

IPA/LAC

AUDIO CRISIS TIM

Arrival Statement in Mexico by Mr. A. W. Clausen

President of the World Bank

VERY FIRST

LONG STANDING

It is a great pleasure for me to have Mexico as the starting point of my first trip through Latin America as President of The World Bank. After visiting your country I will proceed to Colombia and Brazil. Since I accepted the invitation, extended several months ago by President Lopez Portillo and Mr. David Ibarra, to visit Mexico, I have awaited this opportunity to thank you all for your kind hospitality.

May I say that it is a particular honor to arrive here at the airport of Villahermosa, which was completed in 1979 as part of a project, financed in part by the World Bank, that included construction of a total of six regional airports in Mexico.

During the past three decades, Mexico has evolved from a basic dependence on agriculture and mining to a more balanced industrial economy. The World Bank is proud to have been associated with these development efforts.

Mexico is among ~~the~~ A GROUP OF countries AROUND THE WORLD that are industrializing very rapidly. Together with them, Mexico is carving out an enlarged share of ~~the~~ world trade, investment, and total output. At the same time, the Mexican presence has been felt in the international fora.

THE RELATIONSHIP IS AN OLD ONE GOING BACK TO — 1949.

The main objectives of World Bank lending in Mexico have been to support THE policies and programs OF THE MEXICAN GOV'T THAT ~~to~~ sustain the momentum of economic growth and THAT ~~to~~ achieve a wider distribution of ~~the~~ benefits.

The World Bank and its private-sector affiliate, the International Finance Corporation, (IFC) have made loans and investments totaling about $6 billion for some 94 projects in Mexico.

Initially, Bank lending was concentrated on three vital sectors--agriculture, electric power, and transportation. Recently the Bank has supported projects of high social priority, promoted higher levels of employment and production, and helped decentralize economic activity.

Almost half of Bank lending to Mexico has been for agriculture and rural development, with a total of 24 loans for $2.4 billion. The Bank has also assisted projects in the power, transportation, industry, water supply, tourism and urban development sectors. In addition, IFC has assisted a wide variety of private industrial enterprises all over the country.

We in the Bank are ready to continue supporting the efforts of the Mexican people to achieve better standards of living.

During my visit here, I will meet ~~your~~ with President, LOPEZ PORTILLO, SEVERAL OF THE CABINET ministers, senior government officials and other leaders of business and industry. I will visit development project sites to see, at first hand, your achievements, and to have a better idea of the prospects for further development.

I thank you for your kind welcome, and look forward to learning more about your beautiful country.

3 DAYS 1ST VISIT

VILLA HERMOSA - TOBASCO

GUADALAJARA - JALISCO

AGRICULTURE, URBAN DEVELOPMENT, JOB CREATION - SMALL + MEDIUM SIZE INDUSTRY. PIDER, HOUSING, TRUST FUNDS. —

GOV. ROVIRÓSA TOBASCO

PRES. LOPEZ PORTILLO
MINISTER OF FINANCE. IBARRA
GOV. CENTRAL BANK
MIN OF PROGRAMMING + BUDGET
MIN OF AGRICULTURE
INDUSTRIALISTS, BANKING COMMUNITY - SMALL + MED SIZE INDUSTRY.

SEEING WORLD BANK IN OPERATION

'49 - $6 BIL 95 projects
2/3 in AGRICULTURE

PARTNERSHIP.

Pernedez

much meeting

as long credits —

Brazil Argentina + Mexico

Higher rate of interest

Rates of interest

Economic situation

Mexico's debt. fundamentals

---

oil —

Circumstances have changed.

Nat'l Economic

MEXICO: Meeting with Bankers - March 5, 1982

1. Mr. Clausen has been invited to a lunch with bankers, about 10-12 are likely to be present, but their names are not yet known.

2. Mexico has a well developed banking system, which has been closely guided by the Bank of Mexico and the Ministry of Finance. Over the past five years, consolidation of specialized banks into "multipurpose" banks has taken place. The Mexican banks have done a remarkable job of mobilizing domestic savings. Bank deposits have steadily grown and private savings in the recent years have been equivalent to 22-25% of GDP, a performance comparable to some of the best as in Japan.

3. Some of the largest private banks are: Bancomer, Banamex, SERFIN and Comermex.

4. The Mexican banks have also played an important role of providing foreign currency financing to its growing manufacturing enterprises, and the private foreign borrowings, mostly through private or mixed banks, is conservatively estimated at $15 billion. Servicing of this substantial foreign debt after the February 18 slide of the Peso must be posing a major problem to the intermediary banks. In 1976/77, the Government of Mexico had to intervene, with a special loan fund, to avoid default on private loans.

5. As explained in the background note, about one-half of the Bank's portfolio in Mexico relates to credit projects. Participation of commercial banks--private as well as publicly owned--is essential for success of these programs. The larger of the private banks (para. 3) participate in the credit programs of FONEI (for the export oriented industries), FIRA (for agricultural investment), PAI (for investment in smaller enterprises). These banks take the primary credit risk of the clients, and rediscount their loan portfolios with the relevant trust fund of the Bank of Mexico, or NAFIN. Improvement of the services the commercial banks provide to their clients, by way of technical assistance and credit, has been one of the primary objectives of the trust funds. Mr. Clausen may wish to encourage the private bankers to offer suggestions on further improvement of these programs.

6. The other points for discussion are:

- the bankers' perception of the Mexican economy;
- of Government policies of mobilizing savings (fixing deposit rates) and resource allocation (reserve requirements);
- their forecast of the future of the economy, particularly of growth and employment;
- their interest in co-financing (in Mexico as well as abroad).

Mexico Division
February 22, 1982

Statement of Mr. A. W. Clausen

I am very pleased to have been able to accept the invitation of your Government extended about six months ago to visit your beautiful country. I have been to the States of Tabasco, Veracruz and Jalisco. I had an opportunity to observe the exceedingly challenging task of promoting rural development, creating jobs in small and medium industries, in stimulating agricultural production, not to speak of the very impressive achievements of Pemex. I have been only three days in your country and whatever I have seen has impressed me greatly. The people and the Government of Mexico have made an exceedingly good use of the rêsources borrowed from the World Bank.

The first loan to Mexico was made in 1949. Over these 32 years, about dollar 6 billion have been loaned by the World Bank and its private sector affiliate the International Finance Corporation. Of this the largest share has gone to Agriculture and Rural development projects; over dollar 2.3 billion. Over half of the Bank lending to Mexico has come during the last five years in support of Mexico's priority development goals of greater employment, higher and more equitable distribution of incomes and better economic efficiency. I am pleased at the long standing and close relationship between Mexico and the Bank and pleased that the Bank has been able to respond to your needs and priorities.

The Mexican Government has emphasized a number of priority areas for action, one of the most important is the creation of jobs - the most basic of human rights. Others equally important include the development of Mexico's vast agricultural potential, improve conditions in the rural areas, deconcentration of economic activities from the large urban conglomerates, improved and universal education and job-training, decentralization of administration with responsibilities increasingly being shifted to the States, diversification of Mexico's exports, controlled development of Mexico's vast oil reserves, and the wider participation of all Mexicans in the development process. I applaud your Government for placing priority on such important areas and pledge the continued support of the World Bank in assisting these goals.

Over the last forty years, Mexico's economic growth has been remarkable -about 6% per annum-. This has allowed the economy to absorb a rapidly growing labour force, especially during the past five years. I have every confidence in Mexico's capability to maintain its vigourous development in the long term. Although challenging, the future is a bright one. I recognize that your economy is passing through a difficult phase at this time. But I have been greatly impressed by the policies adopted to adjust the course of your economy. These are sometimes hard and difficult policies. However, in a few months time, with the discipline of all the sectors of your society, and the close cooperation of business, labour and the government, I am confident that Mexico *will be able to resume its long-term growth.*

I am pleased and encouraged by the excellent quality of your economic managers. I have had an opportunity to meet with your President, Ministers for Finance, Programming and Budget and Agriculture. I have also met with the Governor of the Central Bank, the head of Nacional Financiera, and several leaders of your industrial and banking communities. All these discussions have further reinforced my confidence in and respect for the leaders of your country.

It has been a pleasure for my Institution to be associated with your development efforts. I look forward to the continued collaboration of the Bank with Mexico during the challenging years ahead to continue support for your important development goals.

March 5, 1982

Folder II - Field Visits

14.	Villahermosa (Tabasco State)	
	A. Airport Loan (Villahermosa Airport assisted by Bank)	March 2
	B. Regional Development Issues of Tabasco	"
	C. Urban Development Loan	March 3
15.	Agriculture Credit (FIRA) Projects and visit to Agro Industrial Unit	March 3
16.	Rural Development (PIDER) Projects, visit to ejidos	"
17.	Tropical Agriculture Project Loan, Rainfed Agriculture Development (PLANAT) Loan	"
18.	Industrial Ports Program	"
19.	Lunch with PEMEX - Oil Sector	"
20.	Industrial Credit Loans and visit to Small/Medium Industries	March 4

Folder III - Meetings in Mexico City

21.	Luncheon Meeting with Industrialists	March 4
22.	Meeting with Finance Minister and the Financial Team	"
23.	Meeting with President Lopez Portillo	March 5
24.	Meeting with Programming and Budget Minister	"
25.	Luncheon Meeting with Bankers	"
26.	Meeting with Presidential Candidate Miguel de la Madrid	March 6
27.	Meeting with Minister for Agriculture and Water Resources	March 5

MEXICO: Meeting with Private Industrialists - March 4, 1982

1. Mr. Clausen has been invited to a luncheon meeting with about ten top industrialists of Mexico. Recently the largest conglomerate, the Alfa group, had to be bailed out by a Mex$18 billion Government assistance and this has led the leftist politicians and Cambridge influenced academicians to press for greater role of the state in managing the economy. The Japanese industrial model, with historical restrictions on private foreign investments and 'window guidance' from the Central Bank, is a popular theme touted by this group. However, the Government has been more pragmatic and private investment has been expanding at an annual rate of 15% (in real terms). Private foreign investment also has been increasing spectacularly (estimated at $1.6 billion in 1980, followed by $3 billion in 1981). Moreover, the private sector's foreign borrowings are put at around $15 billion. 1/

2. The meeting could be an occasion to probe the industrialists' perception of the economy. What role they see for themselves in this expanding economy? What are the major Government policy issues of their concern? The Mexican industrialists have not been as export minded as the Brazilians or Koreans, the views of the industrialists on non-oil export possibilities would also be interesting.

3. In most developing countries, and Mexico is no exception, one is caught between a dynamic private sector with little social sensitivity and a growing public sector with little concern for efficiency. A probe on how the industrialists see the social problems--of poverty, of income disparities--and unemployment could be useful.

1/ The February 18 devaluation will cause the assets, as well as foreign debts of the enterprises expressed in peso, to increase sharply. Debt service in the short term will cause hardship and is likely to be a subject of discussion.

Mexico Division
February 18, 1982

MEXICO: Meeting with Mr. David Ibarra, Governor of the Bank of Mexico and the senior members of the Financial Team -- Thursday, March 4, 1982

(Likely participants:

From the Ministry of Finance:

Messrs. David Ibarra,
Jesus Silva Herzog, Deputy Minister of Finance
Oscar Levin, Director General of Credit
Salvador Arriola, Director General, Int'l. Relations
and their aides

From the Bank of Mexico:

Messrs. Gustavo Romero Kolbeck
Alfredo Phillips, General Manager, Int'l. Relations
and their aides

* From Nacional Financiera (NAFIN) :

Messrs. Jorge Espinosa de los Reyes, Director General
Alfonso Garcia Macias, Deputy Director General

* From National Bank of Public Works (BANOBRAS) :

Dr. Octavio Hernandez, Director General
Mr. Carlos Martinez Ulloa, Deputy Director General

* From National Fisheries Bank (BANPESCA) :

Mr. Alfonso Cebreros, Director General

* - Institutions designated by the Government to borrow from the Bank and the IDB. The Bank has so far made 66 loans ($5,218 m) to NAFIN, 6 loans ($616 m) to BANOBRAS, and 1 loan ($14 m) to BANPESCA.)

1. Please see the notes for meetings with President Jose Lopez Portillo and candidate Miguel de la Madrid respectively. Many of the issues are likely to overlap in these three meetings.

2. Mr. Ardito Barletta met the Finance Minister and the Governor of the Central Bank on February 2, 1982. He explained the circumstances requiring front-end fee, the policy on graduation as approved by the Executive Directors and assured them of the Bank's goodwill

and cooperation as implicit in our program for loans (about $2,900 million in loans on 31 projects in the five-year period FYs 82-86) and economic studies. The Mexican officials explained the recent measures they have taken to curb deficits of the budget and balance of payments.

Issues that Mexican officials may raise

3. Clarification of the graduation policy as it affects Mexico: 1/

GNP per capita in Mexico is $2,130 (Bank's paper "Graduation from the Bank, dated January 6, 1982). The peso is over-valued, the Mexicans recognize this and indicated a policy of accelerated float: of 18-20% a year. With adjustment of the exchange rate and anticipated deceleration of growth (down from 7.5% in 1981 to 6%, possibly less, in the coming years), Mexico is likely to reach the $1,000 (1970 dollars) GNP per capita benchmark towards the latter part of this decade. Therefore immediate graduation is not the issue, the problem is one of rationing the Bank's resources at a time of overall shortages faced by IDA and the Bank.

4. The approved five-year (FYs 82-86) lending program for ~~Mexico~~ is for $2,900 million. This leads to an annual average of $580 million, which is below the expectation of Mexican officials. During the Annual Meeting, the Delegation had sought $650-700 million a year in real terms; Mr. Clausen had stated that a lending relation of $600-650 million (in nominal terms) a year would be maintained.

Have priorities changed?

5. Mr. Ibarra recently stated to Mr. Ardito Barletta that Mexico and the Bank together have initiated several pioneering programs (rural development, employment creating small/medium industries, programs for orderly growth of urban areas) and in Mexico the Bank could usefully expand such areas of cooperation. He may raise some of these points with Mr. Clausen.

6. Mr. Clausen may wish to reassure the Finance Minister of the Bank's continued interest in Mexico. We are processing several of their priority projects--the capital goods projects, pollution control program, support for rainfed as well as irrigated agriculture, agricultural marketing, urban development, water supply and possibly transport infrastructure. Should the Government continue its imaginative co-financing efforts, the Bank's lending program would go a long way in establishing pilot programs which the Government could expand with their own and resources borrowed from the market.

7. Impressions of the field visits: The officials would be interested in hearing from Mr. Clausen his impressions of the field visits (covering some agriculture, rural and urban development and industrial credit programs).

1/ With the devaluation of February 18, Mexico has moved further away from the graduation benchmark.

Issues Mr. Clausen may wish to raise

8. Mr. Clausen may wish to express his appreciation for

- completion of the legislative arrangements for Mexico to join IDA 6 as donor ($20 m) and the annual grants to CGIAR ($0.5 m in 1980, $1 m in 1981);
- offers of assistance to Central American and Caribbean countries with soft loans under the San Jose Agreement (up to $350 m a year);
- increases of the domestic prices for gasoline and diesel;
- increases in lending rates on agricultural and industrial credits (from 14-22 percent to 20-34 percent); hoping that realistic adjustments would be done periodically in the future;
- the new policy of floating the peso (without intervention of the Bank of Mexico) is a bold step to be commended.

9. He may request Mr. Ibarra to repeat the co-financing arrangement of 1982 ($500 million borrowed from the market in January to complement the Bank resources in financing projects) next year. Also to encourage project specific co-financing to the maximum extent possible: Capital Goods Credit Project (FY82), Foundry Forge (FY83) and Fisheries (FY83) should be good candidates.

10. Management of the Economy: President Lopez Portillo has all along indicated a strong commitment against letting Mexico become a classical oil producing country. After a promising start in 1977, the Mexican economy today has become over dependent on oil. It accounts for 70% of its exports and 28% of Government revenues.

11. Oil has made Mexico attractive to private bankers and they have loaned it over $50 billion; foreign debt is presently equivalent to 30% of the GDP and in 1981 debt service payments were equivalent to 43% of export earning. Non-oil exports have been declining in real terms, hopefully with the new exchange rate policy the trend will be reversed.

12. Expecting large PEMEX surpluses, the public investment has been expanding at 15% a year (in real terms), the Government launched a large welfare program and programs of extensive subsidies to consumers as well as to investors. As a result, in 1981 when oil exports fell below expectations (actual of $15.4 billion compared to anticipated $19 billion), the public deficit soared to $30 billion, or 14% of GDP equivalent, leading to inflationary pressures and unusually large deficit of balance of payments (equivalent to 8% of GDP).

13. From February 18 the Bank of Mexico suspended its support for the peso and there is no stated commitment for a new parity. The peso is presently being traded around 38 to a dollar (on February 17 it was Mex$26.91 = 1 US$). The Government's new economic policy package is being studied and a separate note would be submitted to Mr. Clausen prior to his departure for Mexico.

14. Stricter fiscal management and a more flexible exchange rate policy were measures overdue. Mr. Clausen may wish to advise Mr. Ibarra, that now that these politically unpopular policies have been adopted, it would be opportune to move on the remaining issues that have been the subject of discussion between the Bank and the Government:

(a) Reduction of protection to domestic industry. With the new exchange rate policy, Mexico can afford to reduce quantitative restrictions and tariffs on imports. Besides stimulating efficient import substitution industries (as for capital goods), such a course should help the Government reduce inflationary pressures.

(b) Promoting investments in production of goods and services for export. Mexican manufactured products, as well as agricultural produce, are of high quality, but their exports were hampered in recent years by inadequate profit margins. Now, with the expected slow down of the economy, domestic demand will be less and with suitable support--through a policy package and investment funds--the non-oil exports could once again become buoyant. We should encourage the Government to adopt non-traditional exports promotion policies (including appropriate financing and tax incentives) that we could support in the next industrial and agricultural credit projects.

(c) Consideration of measures for reduction of subsidies in the economy deserve very high priority. The analysis of subsidies and the efforts made so far by the Government to make those explicit are commendable. The next logical step should be to reduce and rationalize them, retaining only the essential ones and in a form that could be supervised effectively. The Government could set annual targets for phased reduction of the subsidies (in 1981 equivalent to 13% of GDP) through adjustment of prices of publicly produced goods and services, by allowing the interest rates (of Government supported loans) to approach the market level and tightening administration of some of the welfare expenditures (such as on COPLAMAR, programs for the marginal areas and the SAM programs).

15. Poverty, unemployment and income inequality will continue to be critical issues requiring Government's attention. Solutions to these require a long-term strategy based on economic pricing of factors of production to favor labor intensive against capital intensive projects (therefore linking wages to labor productivity and having positive interest rates in real terms). Mr. Clausen may wish to inform Mr. Ibarra that the Bank, as in the recent years, will be ready to assist priority projects that address to these issues (examples: support for rainfed agriculture, rural development, job creating small industries and well targeted agriculture credit projects).

16. Economic and Sector Work Program: Mr. Clausen would recall Mr. Ibarra's letter during the Annual Meeting, expressing appreciation for the Bank's technical assistance. Mr. Ibarra may be interested to know that presently (a) we are completing an agriculture sector report, which we propose to discuss with the Government in the coming weeks, (b) draft of the Chiapas regional study has been presented to the Government, (c) an industrial sector analysis mission has just completed its visit to Mexico, (d) analysis of investments in industrial ports is progressing in conjunction with implementation of the ongoing Industrial Ports Preparation loan, and (e) highway sector policy issues are being analyzed jointly by Government and Bank officials as a part of theongoing Highway Sector loan. (Please see the attached sheet for scope and status of these studies).

Attachment

Mexico Division
February 18/24, 1982

Ongoing Sector Studies

1. Chiapas: A depressed state, bordering Guatemala, has a large indigenous population (about 35% of the total). It also has large unexploited natural resources (energy, forest, agriculture, fisheries, and tourism). Given the importance of integrating this group in the mainstream of the economy and to stimulate growth, the Government invited the Bank to participate with its officials in preparing a growth strategy and development program. The draft report is being reviewed in the Bank and by the Government.

2. Industrial Ports: The Bank made a loan ($14 million) in March 1981 to prepare investment programs for the industrial ports. Since then officials of the Government and the Bank staff have been jointly working on preparation of least-cost solutions for this important development program, which are estimated to cost about $20 billion over the decade.

3. Highway Sector Policies: This policy dialogue has centered on four topics: (a) road user charges and fuel prices; (b) truck axle weight control; (c) road transport regulations; and (d) intermodal movement of cargo. This dialogue is being carried in the course of supervising a highway sector loan ($120 million of March 1979).

4. Agricultural Sector Mission: An agricultural sector mission visited Mexico on October 26-November 20, 1981. Its main purpose was to examine the sector's performance in terms of production, productivity and resource use, concentrating on four major issues: (a) Pricing policies for farm inputs and products; (b) supply and distribution mechanism; (c) incidence and effectiveness of the agricultural subsidy system; and (d) efficiency of the grain marketing system. The findings of the mission will be discussed in March 1982.

5. Industrial Sector Study: Reflecting the importance of Bank's policy dialogue with the Mexican authorities, an industrial sector mission recently completed its field work (February 2-20), assessing the main achievements of the current administration. The mission focussed on three areas which have been given priority by Mexican authorities as well as by the Bank's own economic reporting. These are: (a) the expansion of exports of manufactured products, (b) the generation of employment opportunities directly within the sector and indirectly within other sectors, and (c) the acceleration of industrial decentralization to improve the spatial distribution of the population. The mission's findings regarding possible adjustments and modifications to the present policy framework are to be discussed with government officials in May/June 1982.

6. <u>Metropolitan Deconcentration Sector Study:</u> Mexico City metropolitan area has a population of about 15 million and is racing towards becoming the world's largest urban conglomerate. 42% of the GDP originates in the Federal District. Its growth is becoming almost unmanageable, though halting its growth is impossible given the sheer momentum of its natural increase.

The Government strategy to deal with the situation has three components: (a) promotion of growth poles along with the two coasts (Mr. Clausen will be explained the Industrial Ports program on March 3), (b) promotion of more than a dozen medium-sized cities in the country, and (c) deconcentration of economic activities in the metropolitan area and promotion of orderly growth of cities in the adjoining states (Mexico, Morelos, Puebla, Tlaxcala, Hidalgo, possibly also Queretaro).

A Bank mission is currently in Mexico, studying the last of the above strategies. A long-term program is under preparation by the Metropolitan Area Conurbation Commission, and will be assisted by this study as also by an engineering loan (of $15 million, scheduled for July 1982).

MEXICO: Meeting with President Jose Lopez Portillo, March 5, 1982 - 10:00-11:00 a.m.

1. President Lopez Portillo has earmarked an hour for his meeting with Mr. Clausen, a period he generally reserves for important Heads of State. As President of Mexico, this will be his fourth meeting with the President of the Bank, which he admires and in which he has taken much personal interest.

2. Lopez Portillo's term will be expiring in December 1982. But because of his personality and international prestige, he is likely to remain an elder statesman, somewhat like Pearson (of Canada), Willy Brandt or Ted Heath. He could be an important supporter for the Bank and its ideals. Therefore, at the cost of brevity, this briefing paper explains the background of Bank's relations with him and suggests an approach for consideration of Mr. Clausen.

Background

3. Before becoming the President of Mexico, Lopez Portillo dealt with the Bank as its Governor, and before that as the head of CFE (Comision Federal Electricidad). Soon after assuming office he visited USA and held a meeting with the Bank's president, which he described to 'New York Times' as a highlight of his February 1977 trip to Washington.

4. Mr. McNamara discussed with him the basic structural problems of Mexico--of poverty, demographic explosion, unemployment, over-concentration of economic activities in the resource poor central highlands--and offered Bank's assistance in resolving them. Mexico faces problems of distribution of wealth, maintenance of income and channelling its income into the surest and most equitable development plan. Lopez Portillo instructed his Cabinet members to seek the Bank's assistance in preparing programs that lead to growth with equity and creation of jobs. We found mutually acceptable and beneficial programs and projects that have resulted in more than doubling the Bank's portfolio in Mexico from about $2.4 billion in 1976 to $5.2 billion now. Twenty-six projects with loans of $2,830 million were approved during his Presidency. While these amounts are large by Bank standards, relatively speaking we have been a less important source of financial resources for Mexico. Less than 6% of its foreign debt has been contracted from the Bank.

5. In 1978, Lopez Portillo sent a team of senior officials to study the Bank's global experience in dealing with the issues of rural and urban poverty and unemployment. When confronted with some critical bottlenecks to Mexico's growth process, he sought Bank's advice. We responded with advice as well as loans for modernizing the Railways, improving the highway network and for training middle-level technicians (the last during Mr. Clausen's Presidency). In addition, he has held lengthy sessions with Bank staff to discuss issues such as the rate of oil exploitation, public investment mix.

6. In parallel, the US Government and the Congress noted the potential relief to immigration as well as opportunities to trade, that economic and social development in Mexico would provide. Their Executive Directors gave strong support to Mexican loans. Also some senior U.S. officials (Hormatz, Bergsten and Ed Fried among them) discussed with the staff details of the PIDER and other employment creation programs and encouraged us on them. There was an identity of interest of Mexico, the Bank and its largest shareholder in most of the loans we made in this period (1977-1981).

Strategy for the Meeting

7. Our strategy is suggested to be as one that reinforces Lopez Portillo's faith in the institution and then to explore with him what we could jointly do in facing the real economic challenges in the world of the eighties.

8. The task is formidable in an era of budgetary restraints in most of the donor countries. Lopez Portillo is pragmatic enough to comprehend the reality of the issues and will cooperate with Mr. Clausen on several of his key points, namely:

- the poorest (sub-Sahara Africa a major region among them) deserve high priority in global assistance efforts,

- agriculture and energy development programs are of high priority (both figure prominently in Lopez Portillo's domestic programs as well as in his calls to the world community),

- maximum possible use should be made of the resources of the commercial banks (Mexico has been in the forefront in this),

- private investments have an important role in promoting economic growth, and in most countries such as Mexico, a choice between the private and the public sector has not been the issue, rather the appropriate mix that leads to most efficient use of resources has been a subject of discussion. (Private foreign investment has steadily increased in Mexico during his Administration, reaching $3 billion in 1981.)

9. However, President Lopez Portillo as well as his Cabinet colleagues, are likely to suggest that Mexico needs the Bank in a critical period of its growth process. Mexico has the absorptive capacity and has demonstrated its ability to use the loans wisely. The President is not wedded to any specific numbers, but is likely to express an interest in continued, possibly expanded, partnership until such times as the sub-Saharan countries reach the capability of absorbing substantial Bank resources. The approved 5-year (FYs82-86) lending program for Mexico is $2,900 million, or $8.50 per capita per annum.

Suggested Points

10. Mr. Clausen may wish to compliment the President on the achievements of his Administration: high growth, success of the family planning program, spectacular growth of the oil sector, the absorption of new entrants to the labor force (again an unprecedented 3.7% or about 500,000 a year).

11. President may be thanked for the Mexican contributions to IDA-6 ($20 m), expectations of support for IDA-7, and to CGIAR (grants of $0.50 m in 1980 and $1 million in 1981).

12. You should raise with President Lopez Portillo the possibility of his speaking directly to the Heads of State in Germany, France, and Prime Minister of Canada on the issue of IDA, thereby joining a number of leaders from the developing countries such as Houpouet-Boigny (Ivory Coast), Diouf (Senegal), Moi (Kenya), Shagari (Nigeria), Senghor (ex-President of Senegal), Gandhi (India), who are also prepared to take up this matter directly with these countries. President Lopez Portillo's position as the host of the Cancun meeting where the IDA issue was raised and discussed puts him in a key position to play a very influential role in this matter. There is a strong feeling amongst the developing countries that the European countries, Japan, and Canada, should not follow the U. S. lead in rephasing their contributions. N. B.

13. There are three points in particular that President Lopez Portillo may wish to make to his counterparts:

i) this is a time of severe economic and financial crisis for the poorest countries in Africa and Asia with IDA as a very important source of funding for them. Major shortfalls in IDA resources could have disastrous consequences for a number of these countries;

ii) the prospects could be for further delays in the U. S. legislation and therefore of shortfalls in IDA resources and the linkage of non-U.S. contributions to the United States could result in further and more severe cuts in IDA commitments in FY83 and FY84;

iii) there is a growing feeling in the developing countries that other major donors may be using delays in U. S. legislative action as an excuse for reducing the level of their own commitments.

14. Lopez Portillo's initiative in earmarking 30% of the oil exports to ~~Central~~ American and Caribbean countries as soft loans deserves appreciation. (About $350 m a year could be the Mexican aid at terms up to 20 years at 2% p.a.)

15. His Administration has taken some hard, but overdue, decisions of letting the peso float without Bank of Mexico intervention, of more than doubling prices for gasoline and diesel, and increasing lending rates under Government credit programs to farmers and industrialists substantially (by 7 to 13 percentage points in one step). This momentum for economic reforms should continue, with strict fiscal management, greater exposure of the domestic industry to competition, and measures to promote non-oil exports. 1/

16. His Government agreed to Mr. Clausen's request for co-financing, and has borrowed $500 million to provide complementary resources for Bank-assisted projects. We expect such co-financing to be continued. N.B.

17. He may be reminded of the importance of sound, high-priority and carefully managed investments especially during a period of budgetary restraints adopted by his Government. Subsidies have been made explicit, and now the Government has entered the next phase of trimming and rationalizing them. The Bank would be willing to provide its professional, analytical services, in this direction. Our preliminary enquiries suggest that the social and production objectives of the Government could be met with much less of Government subsidies.

18. President Lopez Portillo may raise the complexities of the Central American problem, and invite Mr. Clausen to present his views on the possible solution. (Mr. Clausen would recall that the Bank has agreed to work on the aid coordination group being chaired by the Inter-American Development Bank.)

19. Finally, if time permits, Mr. Clausen may inform President Lopez Portillo of the follow-up action taken on the several requests he had made to our President during his 1979 visit. These are:

- support for rural development, through the PIDER loan ($175 million in July 1981)
- Urban Development Loan ($164 million in May 1981)
- Industrial Ports Studies loan ($14 million, March 1981)
- Regional and economic studies

We are generally satisfied at the implementation of these, and other, programs. Also, we are currently processing loans in support of capital goods industries, and pollution control, both of much interest to the President.

1/ More details are provided in the briefings for the meetings with Messrs. David Ibarra and Miguel de la Madrid.

Devbrat Dutt
Mexico Division
February 18, 1982

MEXICO: Meeting with Mr. Ramon Aguirre, Minister for Programming and Budget (SPP), March 5, 1982

1. The SPP is responsible for: (a) formulation of long-term development strategy, (b) annual budget and public expenditure program, (c) evaluation of development projects, (d) implementation of federal assistance programs to states, including of the 'PIDER' rural development program, and (e) along with the Ministry of Public Works and Human Settlements, strategy for regional and urban development.

2. SPP (through NAFIN) has borrowing relations with the Bank for the PIDER loans; Mr. Clausen will be visiting some PIDER villages on March 3.

3. SPP is responsible for counterpart funding of all Bank assisted projects.

4. Besides sharing impressions of his visit to the Bank assisted projects, Mr. Clausen may raise the issues summarized below:

- the SPP ideas of the stabilization program and the economic policy package in the making;

- in terms of Peso, the foreign debt service payments will need a sharp increase. In view of preemption of such large resources for debt service, and the proposed 3 percent reduction of the recently adopted 1982 budget, which are the areas targeted for cut by SPP? ?

- impact of above on Bank's operational program. Perhaps the best course will be for SPP and Hacienda to review jointly the borrowing program for FYs 82 and 83 and then discuss with the Bank. ?

- Mr. Clausen may wish to express appreciation at the administrative reforms initiated by SPP, particularly in decentralizing powers to states (as observed in Tabasco) and PIDER micro regions.

- the subsidies in the Mexican system are high (equivalent to 9-10% of GDP). The farming sector, for example, is not only assisted through guaranteed farmgate prices; but also by sale of inputs (fertilizer, seed, water, pesticides, farm machinery services) at prices below cost and by credit to smallholders at subsidized rates. It is important that a comprehensive view be taken of all these subsidies, eliminate or reduce them where possible, and consolidate the remaining ones for efficient supervision. The Bank will be ready to assist with its studies, if the Government is interested.

Regional imbalances

- SPP views on the economic development of the country, beyond 1982. What is the program for revision and extension of the Global Development Plan that was drafted by SPP in 1980? ?

- PIDER has been a bold rural development program, the SPP has done a great job of organizing and implementing it. For the future a more unified strategy for the rural sector should be considered, combining PIDER activities with rainfed agriculture programs (PLANAT) of SARH and the specialized programs operated from the Presidency (CUC, COPLAMAR, SAM). If SPP is interested, the Bank could once again present its experience in India, Korea and similar countries in meeting this type of challenge.

- What are the areas of SPP interest for Bank support? We have, over the past five years, assisted the Government in programs that have a long-term development impact on the country.

Mexico Division
February 22, 1982

MEXICO: Meeting with Mr. Miguel de la Madrid,
Saturday, March 6, 1982

The meeting will set the tone for Bank activities in Mexico for the next six years. Some points for Mr. Clausen are suggested below:

1) Expectations of continued Mexican support for IDA, CGIAR and development of cooperative Bank/Mexico assistance to Central America and Caribbean countries. Increasingly, we will have to ask what Mexico and the Bank together could do for the developing world, rather than what the Bank can do in Mexico.

2) Reiteration of continued Bank support to Mexican development programs within the resource constraints of our institution. The five-year (FYs 82-86) program includes 31 projects ($2,900 million) for: agriculture, rural development, training of technicians, development of capital goods and other industries, pollution control, employment-creating small and medium industries, urban and regional development and investments to reduce transport bottlenecks in Mexico (ports, railways and roads). Of course, we will review the program with the new Administration next year.

3) In the future, even more than in the recent past, financial assistance from the Bank would take a second place to our economic and sector work in the country. Several areas of such technical assistance have been discussed with the candidate's staff and include technical notes on: market signals and resource allocation; industrial strategy; foreign trade incentives; functioning of the labor market, and optimum rate of oil exploitation.

4) With all the press speculations on graduation, it is likely that Mr. Miguel de la Madrid will probe Mr. Clausen on this subject, especially as the policy affects Mexico in the next six years. Per capita GNP of Mexico is $2,130; adjusting for overvaluation of the Peso it would be less. With the latest decline in value of Peso, Mexico is receding even further from the graduation benchmark, now this discussion becomes largely academic, and unlikely to affect Mexico during Mr. de la Madrid's administration.

5. Mr. Clausen may wish to discuss with Mr. de la Madrid the issues which are likely to be at the center of his economic program for the duration of his term. Most of these issues have been discussed in the course of the Bank's policy dialogue with the current Administration; and, while there has not always been agreement between the Bank's recommendations and the Administration's policy measures, Mr. de la Madrid's views have usually been close to the Bank's. Some of the critical issues of economic management are:

(a) Subsidies: direct and price subsidies (13% of GDP in 1981) make a substantial contribution to the public sector deficit. Many of these subsidies have been granted without a careful analysis of their efficiency. There is some evidence that some of them have perverse effects--that they fall into the wrong hands, as in the case of some agricultural subsidies, or that they distort producers' choices, as in the case of the labor/investment subsidy, which discriminates heavily against creating new jobs. The Administration has made a serious effort to rationalize and consolidate the subsidy system, and the Bank has offered its technical advice on the matter. It is to be hoped that the program of fiscal austerity undertaken by the current Administration will provide a good starting point for a thorough revision of the system.

(b) Fiscal management: in 1981, the actual public sector deficit was equal to 14% of GDP. Such a deficit introduces massive distortions in the economy and has been one of the causes of the recent devaluation. The Administration should be commended for its 1982 budget--for which Mr. de la Madrid was partly responsible--and it is to be hoped that the new Administration will be able to continue on a path of prudent fiscal management.

(c) External trade: Although the weight of oil sales in total exports is very high, the Mexican economy has had more success than any other oil-exporting country in avoiding an excessive dependence on oil. The recent devaluation removes the biggest obstacle to industrial exports, and, with suitable support from the Government--in terms of technical assistance for the development of export markets, rather than in the form of explicit or hidden export subsidies--Mexico should be able to strengthen its non-oil export sector. On the import side, Mr. Clausen may wish to explore the commitment of the next Administration to freer trade--mostly by the dismantling of the import licensing system--once the main reason for trade barriers, namely, the overvaluation of the peso, has disappeared.

(d) Longer-term issues: to some extent, the basic development problems of the Mexican economy still print: poverty, income distribution and urban-rural imbalances. Mr. de la Madrid's program will no doubt address these aspects, and Mr. Clausen may wish to encourage the Government to find solutions to these issues, on which the Administration has received continuing support from the Bank.

6) Mr. de la Madrid has been readily accessible to Bank staff, invariably pragmatic in finding solutions, serious but with a sense of dry humor and known never to doubt our intentions or take offense at our insistence even on the most sensitive issues. Mr. Clausen may wish to express his appreciation for his past support to the Bank and its staff.

Mexico Division
February 18, 1982

MEXICO: Meeting with Minister for Agriculture and Water Resources - March 5, 1982

(Background

Please see Minister MERINO Rabago on page 5 of the 'Biographical Sketches'. He is the first occupant of the combined Agriculture and Water Resources Ministry.

Mexico, with about 24 million rural population and 17 million ha harvested annually, has one of the lowest land/man ratios (about 0.7 ha). The ratio continues to decline as despite substantial migration to cities, rural population has been increasing at 1.3% a year. Agriculture accounts for less than 10% of the GDP, of which almost one-half is contributed by 13% of all farmers having access to irrigation. Three out of four poor Mexicans live in rural communities, mostly in unirrigated areas.

Mexican agriculture grew impressively for three decades following the massive land reforms of the 1930s, Agricultural production increased substantially (6% per annum) during 1956-1966, but only modestly and below population growth since 1967. Earlier growth was associated with investment in irrigation facilities. Since the large irrigation schemes have become more complex and expensive, recently emphasis has been on measures to increase productivity of the rainfed lands. N.B.

Mexico faced two successive years (1978-79) of drought and poor crops, and became one of the largest importers of grain (along with USSR, Japan and China). Concerned at excessive dependence on imported food, the Government launched a major program (SAM) aimed at making the country self-sufficient in food, securing minimum nutritional needs of the rural and urban poor, and increasing rural employment.

The 1980-81 harvests have yielded record wheat, maize and sorghum crops. While favorable weather helped, new remunerative guaranteed prices and inputs supplied at subsidized prices provided substantial incentives. A Bank mission is preparing its report on the Agriculture Sector (the Minister personally facilitated its work); its preliminary findings suggest that the Government may have gone overboard and provided excessive subsidies to production as well as for consumption of food. N.B

Bank support for agriculture projects has been extensive, covering irrigation, rainfed agricultural development (both with the Agriculture Ministry), rural development (under the Ministry of Programming and Budget) and credit (under the Bank of Mexico). Agriculture accounts for $2.3 billion of the total $5.2 billion Bank portfolio. In the pipeline are 5 projects for FYs 82/83: three with Agriculture Ministry, one of which (Rio Bravo Irrigation $180 m) will be considered by the EDs on March 16; one (Agriculture Marketing) with Bank of Mexico, and the final one (Fisheries) with Bank of Fisheries Development.)

Issues

1. The Minister is likely to explain to Mr. Clausen the Agriculture situation and strategy for growth. He is also likely to seek Bank's continued support.

2. Mr. Clausen could assure the Minister on our continuing interest to assist Mexican agriculture. Following issues would require the Government's attention:

- While the Bank would be happy to support SARH in programs that make production less dependent on the vagaries of nature, public investments need to be supplemented with sound policies to provide right incentives to farmers, without recourse to excessive subsidies as appears to have been the pattern in recent years.

- For improved demand management, the Government will be increasingly resorting to reduced public deficit, if not go for a balanced budget. Accordingly, the investment resources would be under pressure and would have to be placed in the most productive projects. Also, progressively, subsidies involved in providing credit at negative (real) rates, would have to be reduced, possibly eliminated. The present system of high farm gate prices, combined with low consumer prices, as also of inputs at subsidized rates, cannot be sustained indefinitely without major problems of macro-economic management. The SARH would have to design a new strategy for the 1980s. The Bank would be happy to provide the experience of other countries which have achieved success in improving agriculture. Discussion of the sector report, to be presented to the Minister in March/April, could be the occasion for this dialogue.

- We would appreciate the SARH reviewing its investment priorities with Ministers for Programming and Budget (SPP) and Finance (Hacienda) in the light of the latest budget cuts, so that the agricultural projects presented to the Bank receive adequate counter-part funding for timely completion.

- Irrigation projects (including rehabilitation programs) would continue to be important in Mexico. Mr. Ardito Barletta has proposed to the Minister a study on the management of irrigation districts, including subjects such as improved efficiency of water use, cost recovery and maintenance practices. Mr. Clausen may wish to emphasize the importance of the exercise. (He would recall his visit to India, where a major effort has been made in this direction with good result.)

- Mexico has made impressive progress in agriculture research, especially in developing new varieties of seed. However, the links between basic and applied research, and between research and application to farms are weak. The Minister may wish to focus on improving the production system of high-yielding varieties of seeds and final distribution to farmers.

Mexico Division
February 26, 1982

WORLD BANK	A.B.M.
Alden W. Clausen	Víctor Manuel Herrera
Nicolás Ardito Barletta	Carlos Abedrop
Joaquín Muns	Rolando Vega
Devbrat Dutt	Eugenio Eraña
Varel Freeman	Agustín F. Legorreta
	José Ma. Cuarón
	Jorge Morales Treviño

DON ALDEN W. CLAUSEN

CENTRO **BANCOMER**
AV. UNIVERSIDAD 1200 MEXICO 12, D.F.

MEMBERS OF THE ASOCIACION DE BANQUEROS DE

DE MEXICO INVITED TO

THE LUNCH OF FRIDAY, MARCH 5.

1. Mr. Víctor Manuel Herrera, President of the Asociación de Banqueros and Director of BANCOMER.

2. Mr. Ruben Aguilar, Director - General of BANAMEX.

3. Mr. José M. Cuarón, Director of Banca SERFIN.

4. Mr. Agustín F. Legorreta, President of the BANAMEX Board of-Directors.

5. Mr. José Morales Treviño, Director - General of Banca SERFIN.

6. Mr. Carlos Abedrop, Executive President of Banco del Atlántico.

7. Mr. Eugenio Eraña, Director of BANCOMER.

8. Mr. Arcadio Valenzuela, Executive Vice - president of Banco - del Atlántico.

(1) Financial
of funds

(2) of Mexican

member countries
limit
increasing conditionality

Political factors

(1) How traditional
- adversarial
(2) - new Programs Energy Policies
Renegotiate Debt? withheld?

INDUSTRIALISTS INVITED TO THE LUNCH
OF THURSDAY, MARCH 4.

1.- Mr. Alfonso Pandalf Graf, President of the Industrial Confederation (CONCAMIN)

2.- Mr Ernesto Barroso, President of the International Relations Committe of CONCAMIN

3.- Mr. Ernesto Rubio del Cueto, formér President of CONCAMIN

4.- Mr. Rodolfo Barrera, Member of the executive committe of CONCAMIN

5.- Mr. Juan López Silares, Vice-president of CONCAMIN.

6.- Mr. Agustín Guevara, President of the National Silviculture Industry Chamber

7.- Mr. Humberto Lobo Morales, Representative of the Industrial Association of the State of Nuevo León

8.- Mr. Humberto Escoto Ochoa, Director General of CONCAMIN

GUESTS AT THE DINNER OFFERED BY MR. ROMERO

KOLBECK.

World Bank

Mr. and Mrs. A. W. Clausen

Mr. Nicolás Ardito Barletta

Mr. Devbrat Dutt

Mr. Varel Freeman

Mr. Joaquín Muns

SHyCP

Mr. and Mrs. David Ibarra

Mr. and Mrs. Jesús Silva - Herzog

Banco de México

Mr. and Mrs. Gustavo Romero Kolbeck

Mr. and Mrs. Leopoldo Solís

Mr. and Mrs. Alfredo Phillips

Mr. and Mrs. Miguel Mancera

SEPAFIN

Mr. and Mrs. José Andrés de Oteyza

SAyRH

Mr. and Mrs. Francisco Merino Rábago
Mr. and Mrs. Jesús Romero Chávez

SRE

Mr. and Mrs. Jorge Castañeda y Alvárez

Petróleos Mexicanos

Mr. and Mrs. Julio Rodolfo Moctezuma Cid
Mr. and Mrs. Antonio Enríquez Savignac

Banco de México

Mr. and Mrs. Gustavo Romero Kolbeck
Mr. and Mrs. Leopoldo Solís M.
Mr. and Mrs. Alfredo Phillips Olmedo
Mr. and Mrs. Miguel Mancera

NAFINSA

Mr. and Mrs. Jorge Espinosa de los Reyes
Mr. and Mrs. Alfonso García Macías
Mr. and Mrs. Francisco Suárez
Mr. and Mrs. Jorge Tamayo

BANOBRAS

Mr. and Mrs. Octavio Hernández F.
Mr. and Mrs. Carlos Martínez Ulloa

BANPESCA

Mr. and Mrs. Alfonso Cebreros Murillo

SOMEX

Mr. and Mrs. Mario Ramón Beteta

SECTUR

Miss. Rosa Luz Alegría Escamilla

SEPES

Mr. and Mrs. Fernando Rafful

DAVID IBARRA

1/March/82

Dear Mr. Clausen

Welcome to Mexico. I sincerely wish your visit will be a pleasant and rewarding experience. Thank you for accepting our invitation.

During your stay in Mexico, we wish to show you some of the achievements of the present Administration, including some of the results obtained with the support of the World Bank. In addition, you will be able to apreciate some of the needs my country still faces and possibly be able to identify areas of further Bank support. The meetings scheduled in Mexico City are intended to complement your extensive knowledge of Mexico and to stregthen the already close relationship between the Bank and my country.

We have chosen Villahermosa, Tab. as the starting point for your visit because that region ilustrates many of the acomplishments-and also many of the problems- that characterize Mexico today. While in Villahermosa, you will be able to see the results of Bank investments in the Agricultural Credit and Urban Development Projects.

Following Villahermosa, you will visit two ejidos, which are representative of the Rural Development Program (PIDER) that has received Bank support.

You will also visit the research station at Huimangillo where important work to improve farm productivity in Tropical Mexico is underway. This program, and others, that are central to Mexico's agricultural development efforts have received the technical and financial support of the World Bank.

The second stage of your visit will show you the oil and industrial complexes in the Cangrejera and Coatzacoalcos area. As you know, the development of the oil industry is one of the priorities of the present Administration. You will also be given an - explanation of the efforts and plans for the ports sector, which the Bank is assisting with a recent - loan.

Finally, you will be taken to the City of Guadalaja- ra, where the main objective will be to show and - explain to you the program of activities to promote medium and small scale industries. This program is important to strengthen Mexico's industrial base - and create new jobs. It is also an area where the - Bank also has had an important participation.

I hope this brief but intensive tour of three very different regions of my country may help you to - form a clearer picture of Mexico, as it is today - as well as of the results achived with the support of the Bank and of the direction this support - should take in the future.

I look forward to our meeting next Thursday, as it will provide an opportunity to exchange views on - subjects related to my country and the World Bank.

Sincerely yours,

David Ibarra

SUBSECRETARIA DE HACIENDA Y CREDITO PUBLICO

MR. A. W. CLAUSEN
VISIT TO MEXICO
MARCH 2 - 6,1982

CONTENTS.

ITINERARY AND PROGRAM OUTLINE

VISIT TO MEXICO - MARCH 2 to 6, 1 9 8 2

TUESDAY, MARCH 2, 1982

TIME		REMARKS
1:00 P.M.	Leave Washington (National Airport)Flight No. PA 331	
3:24 P.M.	Arrive Miami Transfer to Government of Mexico Jet	Mexican officials will meet at Miami airport and accompany to Villahermosa
4:45 P.M.	Leave Miami	
5:30 P.M.	Arrive Villahermosa (Tabasco State)	In Central Time Zone Governor Rovirosa will receive at Airport
5:45 P.M.	Brief arrival statement to Press (to be simultaneously released in Mexico City)	
6:00 P.M.	Leave airport for Governor's Mansion "Quinta Grijalva"	
6:30 P.M.	Arrival at Governor's Mansion	Mr. and Mrs. Clausen will be Governor's house guests
7:20 P.M.	Depart Governor's Mansion	
7:30 P.M.	Visit La Venta (Olmec)Museum and Park	
8:30 P.M.	Depart for Governor's Mansion	
8:45 P.M.	Informal Dinner with the Governor and State Development Officer: Discussion of the Development Problems/ Programs of the State	
11:00 P.M.	Retire to suite	

WEDNESDAY, MARCH 3, 1982

TIME		REMARKS
7:30 A.M.	Private breakfast	
9:00 A.M.	Leave Governor's Mansion	By Governor's Bus Mrs. Clausen will accompany Mr. Clausen until 10:50 A.M.
9:15 A.M.	Arrive at Meat Plant	
	Explanation of the plant and cooperative by members, bankers and FIRA staff.	
9:45 A.M.	Leave Meat Plant	By Governor's bus
10:00 A.M.	Visit urban development site Ciudad Industrial	
10:20 A.M.	Leave Ciudad Industrial	
10:30 A.M.	Visit urban development sites El Espejo and "Tabasco 2000"	By helicopter (Mrs. Clausen's program in her itinerary)
10:50 A.M.	Depart heliport at "Tabasco 2000"	
11:15 A.M.	Arrive at ejido Aquiles Serdan; discussion of the PIDER program	
11:35 A.M.	Depart Aquiles Serdan	By helicopter
11:50 A.M.	Arrive at ejido Zunu-Patastal; discussion of PIDER program	
12:15 P.M.	Leave for Huimanguillo	By helicopter
12:45 P.M.	Arrive at Huimanguillo and visit PRODERITH Research Center (Tropical Agriculture Development)	
1:15 P.M.	Leave for Coatzacoalcos	By helicopter
1:45 P.M.	Arrive Coatzacoalcos	
2:00 P.M.	Luncheon discussion with PEMEX officials	
3:15 P.M.	Rest period	
3:40 P.M.	Explanation of port and petrochemical development in Coatzacoalcos area	

4:10 P.M.	Visit PEMEX facilities	Bus and walking
5:35 P.M.	Depart heliport, overflight of industrial development	by helicopter
6:05 P.M.	Arrive Minatitlan Airport; transfer to government jet	Mrs. Clausen will arrive in jet from Villahermosa
6:30 P.M.	Depart Minatitlan	
7:45 P.M.	Arrive Guadalajara Airport	
8:15 P.M.	Arrive at Camino Real Hotel	
9:00 P.M.	Informal dinner in Hotel's Salón Inglés (the State Governor likely to be present)	
11:00 P.M.	Retire	

THURSDAY, MARCH 4, 1982

TIME		REMARKS
7:30 A.M.	Private breakfast	
9:00 A.M.	Leave Hotel	By bus
9:15 A.M.	Arrive at PAI offices (Organization for promoting small/medium industries)	
9:20 A.M.	Presentation of the Program and discussion with officials and participating bankers	
10:30 A.M.	Depart Offices	By bus
10:50 A.M.	Visit plant of Modulo Fabril (office furniture financed by PAI)	
11:15 A.M.	Depart Modulo Fabril	
11:30 A.M.	Visit to "Cerámica Contemporánea Noe Zuro" financed by PAI	Mrs. Clausen will join at plant
12:00 P.M.	Depart for airport	By bus
12:30 P.M.	Leave for Mexico City	
1:30 P.M.	Arrive at Mexico City Airport	
2:00 P.M.	Arrive at Camino Real Hotel	
2:30 P.M.	Luncheon meeting with about 10 industrialists (in the Hotel Industrialist's Club)	
4:30 P.M.	Rest Period	
6:30 P.M.	Leave Hotel for Palacio Nacional	
7:00 P.M.	Meeting with Messrs. Ibarra, Romero Kolbeck and Espinosa de los Reyes	
8:30 P.M.	Leave for private Dinner with Mr. and Mrs. Romero Kolbeck at Bank of Mexico offices	Mrs. Clausen will be escorted separatel from the Hotel to Bank of Mexico
11:00	Retire	

FRIDAY, MARCH 5, 1982

TIME		REMARKS
8:30 A.M.	Breakfast with Bank staff	
9:30 A.M.	Leave for Los Pinos (Presidential Residence)	
10:00 A.M.	Meeting with President José López Portillo	
11:00 A.M.	Leave Los Pinos	
11:30 A.M.	Arrive at Secretariat of Agriculture (SARH) offices	
11:30 A.M.	Meeting with Secretary of Agriculture Francisco Merino Rábago	
12:15 P.M.	Depart SARH offices	
1:00 P.M.	Meeting with Secretary of Programming and Budget (SPP) Ramón Aguirre	
2:00 P.M.	Depart SPP offices	
2:30 P.M.	Luncheon discussion with private bankers (BANCOMER center)	
4:00 P.M.	Leave for Hotel	
4:30 P.M.	Arrive at Hotel	
6:15 P.M. 7:00 P.M.	Press Conference (in the hotel Salón Oaxaca)	Mr. Resendiz of Ministry of Finance will moderate
8:15 P.M.	Leave Hotel for State Banquet	
8:30 P.M.	State Banquet hosted by the Minister for Finance at La Hacienda de los Morales	
10:30 P.M.	Retire	

SATURDAY, MARCH 6, 1982

TIME		REMARKS
10:00 A.M.	Depart Hotel	
10:30 A.M.	Visit archeological sites in the center of the city	
11:30 A.M.	Meeting with officials of Mexico City regarding urban development	
12:30 P.M.	Private Lunch (Dining Room of Ministry of Finance)	
1:45 P.M.	Depart for airport	
2:15 P.M.	Arrive Mexico City International Airport	
3:00 P.M.	Leave Mexico City International Airport for Bogotá -Varig Flight 873	By commercial flight
8:30 P.M.	Arrive Bogotá, Colombia	

NOTE: MR. AND MRS. CLAUSEN WOULD BE REQUESTED TO HAND OVER THEIR BAGGAGE BY THE TIME THEY LEAVE THEIR HOTEL FOR THE FIRST PROGRAM ON MARCH 6.

* A MEETING WITH PRESIDENTIAL CANDIDATE MIGUEL DE LA MADRID IS PENDING. THIS DAY'S PROGRAM IS SUBJECT TO CHANGE.

FRIGORIFICO Y EMPACADORA DE TABASCO.

(FYETSA) .

Cattlemen in Tabasco traditionally marketed- their animals " on the hoof " to Mexico City. In 1966, the members of- the Tabasco Regional Cattleman's Union decided to utilize the municipal- slaughterhouse and ship frozen meat to Mexico City. Seeing that this was more profitable, and faced with a growing membership and cattle produc tion, the Union began to prepare for their own packing plant.

The plant was capitalized by a Mex. $ 20 - fee per head marketed through the Union. In 1972, the Union contracted- a loan, rediscounted by FIRA, for the initial construction of the packing- plant. Marketing through the Union became more atractive as profits of- the plant were returned to Cattlemen, hence membership and volume - climbed. Additional loans for the expansion of the plant, refrigerated - truckes, and associated equipment were contracted in 1973, 1977, and - 1979. Of the total investment of Mex. $ 128 million, Mex. $ 43 million- was financed by the Union members and Mex. $ 85 million was financed by credit (about 70 million of which is still outstanding).

Currently under review are proposals for - expansion: a cutting line, transportation equipment, and possibly proces - sing of hides.

SEVENTH AGRICULTURAL CREDIT PROJECT .

FIRA.

Description of the project

The Project is the continuation of the lives - tock and agriculture development program financed under the prior loan- agreements by means of a credit program, managed and supervised by - FIRA within the framework of the Trust Agreement and the Special Trust Agreement, which will make use of the resources of the Special Trust - Fund.

The Project includes:

Part 1: Making of sub-loans for:

(a) livestock development and annual and perennial crop deve_ lopment.

(b) planning and establishment, expansion or improvement of primary processing or service type agroindustries.

(c) Fisheries development.

Part 2: (a) (i) Training for purposes of the Project of technicians of FIRA and Participating Banks and beneficia - ries.

(ii) Establishment or expansion of demonstration cen - ters, and acquisition and utilization of equipment - and livestock for said centers.

(b) Monitoring and evaluation of the impact of the Project ; strengthening of FIRA 's planning and programming acti_ vities and of its data base system.

SECOND URBAN AND REGIONAL DEVELOPMENT PROJECT

Description of the project

The Project is part of a comprehensive urban development program in the States of Tabasco, Veracruz and Chiapas, and consists of the following Parts:

Part A: Shelters and Related Facilities for Low - Income Groups.

(1) Development of about 19,000 serviced lots, each with water, sewerage and electrical connection, and credits to families for the acquisition of said lots.

(2) Sub-loans to families for construction materials and labor to be used for the construction of low-income dwelling units on the lots included in Part A (1).

(3) Urban upgrading consisting of water supply works and related facilities, sewerage networks, paving and storm drainage works and street lighting.

(4) Sub - loans to families for home improvements.

(5) Construction, equipping and operation of community centers.

Part B: City - Wide Infrastructure.

(1) Water supply works consisting of expansion of distribution networks and service connections, extension of main transmission lines, expansion of pumping stations, construction of storage tanks and various water treatment facilities.

(2) Sewerage works consisting of expansion of collection systems and service connections, extension of main collectors, pumping stations, treatment plants and discharge systems.

(3) Access roads to low - income neighborhoods.

(4) Extension of: (a) electricity; and (b) telephone networks in Reforma.

Part C: Municipal Facilities and Services.

(1) Construction of a wholesale market in Villahermosa and construction or rehabilitation of retail markets.

(2) Construction or expansion of slaughterhouses.

(3) Improvement of solid waste collection and disposal services.

Part D: Production Credit and Other Production Activities.

(1) Sub - loans to:

(a) Artisans; and
(b) Small - scale enterprises.

(2) Construction of industrial estates.

(3) Training for, and other assistance to the Borrower, credit recipients, Institutos de Vivienda and Fideicomisos in the fields of management and financial and economic analysis related to production credit and other production activities included in this Part of the Project.

(4) Establishment of a technical and managerial training center in Villahermosa.

Part E: Studies and Support Activities.

(1) Studies in water supply, sewerage, sanitation and related matters.

(2) Studies in shelter - related matters.

(3) Studies in urbanization matters.

(4) Strengthening of the managerial and financial capabilities of:

(a) Water Authorities;
(b) Institutos de Vivienda; and
(c) Municipalities.

(5) Promotional activities for Parts A, C and D of the Project.

PIDER III.

Description of the Project

The purpose of the Project is to increase - production of basic foods, generate higher productivity and per - capita - income levels, raise the level of employment in rural communities and - improve living conditions in terms of nutrition, health, education, housing and drinking water in selected micro - regions.

The Project consists of the following works - and services in the Project Area:

Part A: Small - scale Irrigation

Development of small - scale irrigation schemes, consisting - mainly of construction of tubewells or small dams with related distribution systems.

Part B: Soil and Water Conservation

Construction of soil and water conservation works in agriculturally productive soils.

Part C: Crop Development

Land clearing, improvement and preparation for annual and - perennial crop development including material for establishing - or rehabilitating orchards, coffee plantings and coconut palm - plantings.

Part D: Infrastructure for Livestock Development

Establishment and improvement of infrastructure for beef, - dairy, pig, poultry and goat production, and establishment of - beekeeping installations.

Part E: Forestry

Reforestation and afforestation in selected areas in the states - of Sinaloa and Zacatecas.

Part F: Fishery

Infrastructure for processing and marketing facilities, and technical assistance and training for fishermen to increase efficiency of production and marketing of fish in the coastal micro-regions.

Part G: Rural Enterprises

Development of new, and rehabilitation of existing, rural enter_ prises.

Part H: Credit

a) Provision by Banxico of credit to Participating Banks: (i) to make medium - term sub - loans to beneficiaries of - investments under Parts A through G of the Project; and - (ii) to make short - term sub - loans to beneficiaries of - investments under Parts A through G of the Project, to fi_ nance seasonal production and working capital;

b) Provision by Banrural of credit to Banrural Banks: (i) to - make medium - term sub - loans to beneficiaries of invest ments under Parts A through G of the Project; and (ii) - to make short - term sub - loans to beneficiaries of invest ments under Parts A through G of the Project, to finance - seasonal production and working capital.

Part I: Extension and Applied Research

Provisión of extension and research services and training of - staff; and acquisition and utilization of vehicles, field equip - ment and materials related thereto .

Part J: Marketing

Construction of grain storage warehouses and small rural sto - res.

Part K: Beneficiary Organization

Provision of services to improve the social and economic orga nization of farmers; acquisition and utilization of support equip ment (vehicles, furniture and field equipment); and training - of staff for the diffusion / promotion teams in the micro-re - gions.

Part L: Rural Roads

Construction or rehabilitation of rural roads, and promotion - of and support for village - based committees for rural road - construction and maintenance.

Part M: Rural Electrification

Connection of rural communities to the electricity supply net - work.

Part N: Productive Projects for Women

Execution of a program to increase employment opportunities for rural women.

Part O: Feasibility and Socio - economic Studies

Feasibility studies at the state level for productive investments in such areas as irrigation, soil and water conservation, lives_ tock, rural enterprises and marketing; and socio-economic - studies at the community level to determine baseline levels of- nutrition, health, income, employment, education, and related- areas.

Part P: Education Facilities

Construction or renovation of, and equipping of primary level - classrooms.

Part Q: Health Facilities

Construction or rehabilitation of, and equipping of rural health clinics or centers in communities benefiting under Parts R - and S of the Project.

Part R: Nutrition Program

Promotion of improved nutrition including programs of nutri_ - tion education and supplementary home production of food; esta_ blishment of a nutritional surveillance system.

Part S: Water Supply

Construction, rehabilitation or expansion of water supply faci_ - lities as required to supply water to rural communities.

Part T: Self - help

Provision of materials for self - help construction activities - such as housing and sanitation improvements, community cen_ - ters and village workshops.

Part U: Monitoring and Evaluation

Monitoring of the carrying out of to Project and evaluation of - its impact on the development of the Project Area.

Part V: Training

Training of staff of the Guarantor's agencies and departments - directly involved in the carrying out of the Guarantor's rural -, development programs.

PLANAT.

Description of the project

The Project is the first phase of the Guarantor's National Plan for Assistance to Rainfed Areas (PLANAT), an agricultural development program for Mexico ' s rainfed areas. The Project ' s main objective is to increase agricultural production in nine of the Guarantor's 124 rainfed districts through the implementation of a development program in each of the nine districts over a five year period. In addition, the Project is to assist the Guarantor's training, extension and research activities aimed at developing subsequent phases of such program in other rainfed districts.

The Project consists of the following:

I. District Level (within the Project Area)

Part A: Technical Services

(1) Provision of extension services and facilities for the promotion of improved cultivation and animal husbandry methods.

(2) Carrying out of production systems research and on - farm testing of new techonologies.

(3) Carrying out of soil and water conservation programs, including various types of terraces, contour furrows and small water storage reservoirs, covering approximately 65,000 ha.

(4) Carrying out of forestry programs covering approximately 13,400 ha.

Part B: Infrastructure

Carrying out of rural works programs, including the cons -

truction or improvement of approximately 2,880 km of farm to market roads, approximately 7,000 ha of small irrigation schemes, and drainage works covering approximately 30,000 ha.

Part C: Credit

(1) Provision by Banxico of credit to beneficiaries.

(2) Provision by Banrural of credit to beneficiaries.

II. National Level (outside the Project Area)

Part D: Training

Post graduate study and training in rainfed agriculture related matters.

Part E: Extension and Research

Establishment and operation of regional centers for SARH's extension services and research.

TROPICAL AGRICULTURAL DEVELOPMENT

Description of the project

The project consists of:

1. Development of six pilot projects, of about 4,000 ha. each , introducing technical packages for annual and perennial crops- and livestock;

2. Improvement and expansion of agricultural and livestock ex - tension programs in the humid tropics; and

3. Support for the tropical agricultural and livestock research - programs.

The main components are:

Construction of infrastructure, drainage - works, organization of farmers and extension programs, credit assistan ce, maintenance services, equipment facilities and consulting services.

SMALL - AND MEDIUM - SCALE INDUSTRY DEVELOPMENT PROJECT.

-Description of the project

The purpose of the Project is to assist the Borrower in financing such technical assistance and productive facilities and resources in Mexico as will contribute to the economic development of the country's small - and medium - scale industry. The Project consists of the following Parts:

Part A: Financing of:

(1) Investment Projects through FOGAIN Loans to Participating Intermediaries for further relending to Investment Enterprises; such Investment Projects to consist of establishment or expansion of productive capacity.

(2) Investment Projects through FOMIN Investments in Investment Enterprises; such Investment Projects to consist of establishment or expansion of productive capacity.

(3) Investment Projects consisting of:

(i) Construction of factory buildings by FIDEIN or by a Fideicomiso Especial for purposes of leasing them with or without option to purchase or selling them on deferred terms to small - and medium - scale industrial enterprises:

(ii) Construction and equipping of common service facilities by FIDEIN or a Fideicomiso Especial to be used by small - and medium - scale industrial enterprises; or

(iii) Acquisition of industrial equipment by a leasing entity approved by FIDEIN for purposes of leasing it with or without option to purchase or selling it on deferred terms to small - and medium - scale industrial enterprises.

Part B: Operation of a scheme to guarantee the repayment of the principal of sub - loans made by Participating Intermediaries to Investment Enterprises, including provision for an adequate reserve fund.

Part C: A technical assistance program consisting of: recruitment and training of personnel; technical assistance to industrial enterprises by industrial extension agents and specialized agencies; acquisition and utilization of equipment, materials and services for this program; and technical and financial assistance to industrial enterprises to carry out studies.

PASSENGERS ON PRIVATE PLANE

World Bank

Mr. A. W. Clausen

Mrs. Clausen

Mr. Nicolás Ardito Barletta

Mr. Devbrat Dutt

Mr. Varel Freeman

SHyCP

Mr. Juan Foncerrada

Mr. José Luis Flores

Mr. Timoteo Harris

Miss. María Ballester.

Mr. Rafael Reséndiz

Interpreter

Mr. Fernando Spada.

Security

Col. Francisco Arellano and four assistants.

GUESTS AT THE DINNER OFFERED BY MR. DAVID IBARRA.

Banco Mundial

Mr. and Mrs.	A. W. Clausen
Mr. and Mrs.	Nicolás Ardito Barletta
Mr. and Mrs.	Devbrat Dutt
Mr. and Mrs.	Varel Freeman
Mr.	Joaquín Muns

SHyCP

Mr. and Mrs.	David Ibarra
Mr. and Mrs.	Jesús Silva - Herzog
Mr. and Mrs.	Oscar Levín Coppel
Mr. and Mrs.	Salvador Arriola B.
Mr. and Mrs.	Carlos Sales Gutiérrez
Mr. and Mrs.	José Angel Gurría Treviño
Mr. and Mrs.	Salvador Trueba Rodríguez
Mr. and Mrs.	Guillermo Prieto Fortún
Mr. and Mrs.	Ignacio Madrazo Reynoso
Mr. and Mrs.	Juan José Páramo Díaz
Mr. and Mrs.	Miguel Valdés Villarreal
Mr. and Mrs.	Juan Foncerrada
Mr. and Mrs.	José Luis Flores

SPyP

Mr. and Mrs.	Ramón Aguirre Velázquez
Mr. and Mrs.	Eduardo Pesqueira Olea

SECOM

Mr. and Mrs.	Jorge de la Vega Domínguez
Mr. and Mrs.	Héctor Hernández Cervantes

HIGHLIGTHS OF THE ECONOMIC POLICY ADJUSTMENT PROGRAM.

(Issued 19 February, 1982)

1. Exchange Rate Policy

The Central Bank retired from the exchange rate market, letting the value of the peso to be determined according to the market forces. Once the peso is stable, the financial authorities will adjust its value promptly, if necessary, according to the differential rates of inflation and productivity between México and the rest of the world. No exchange controls will appear and deposit in dollar accounts will continue with no restrictions.

2. Budgetary Policy.

A 3 % reduction in the aproved budget, if necessary these resources will be allocated to cover salary increases and the additional debt service measured in pesos. On the expenditure side, preference will be given to priority sectors or to the more urgent basic needs. To comply with these objetives a strict budgetary control is being enforced.

3. Financial Policy.

Interest rates will be kept at a competitive level. Domestic savings will be encouraged through attractive terms and conditions, private enterprises with debt in dollars will be supported. As of march, the seventh issue of " petrobonos " is available in the market. If needed, there will be long term adjustable (to the national retail price index) interest rate issues with returns in real terms (higher than inflation). Oficial banking will intensify the channeling of funds to prioritary sectors. Agreements on the production of staple foods will be reviewed to provide additional finance for production.

4. Employment and Salaries Policy.

The public sector payroll will be adjusted and the private sector will be advised to do so. The Commercialization system will be reinforced and tax deductions will be granted to low income earners.

5. Foreign Trade Policy.

Domestic production will be encouraged , but popular consumption goods and indispensable inputs for production will not be subject - to duties or import permits.

For export promotion, the present incentive system will be modified to promote competitiveness . Attention to tourism activities - will be strenghtened.

6. Price Policy.

Price controls will be strictly enforced and increases will be authorized only if justified by upward cost movements.

7. International Financial Policy.

México will comply, strictly and punctualy with its obligations, in the world's money and capital markets, including International Financial Organizations. The volume of foreign debt needed for our- development programs will be smaller given the decrease in imports, the increase in exports and foreign exchange earnings from tourism.

8. Support to Border Zones.

The marketing system in the northern border zone will be made - more flexible. The Central Bank will offer its services to avoid - serious monetary adjustments.

MISION DEL BANCO MUNDIAL

Guadalajara, Jal.

Marzo 1982

1. Nombre de la empresa CERAMICA CONTEMPORANEA NOE SURO, S.A.
2. Municipio TLAQUEPAQUE, JAL. Zona RESTO DEL PAIS
3. Productos que fabrica VAJILLA PARA 12 PERSONAS, CANDIL DE CERAMICA, LAMPARAS MEDIANAS, LAVABOS Y AZULEJOS.
4. Principales socios SR. NOE SURO OLIVARES, GUADALUPE SALCEDA RAITES, SR. CARLOS CAMPO GRAJEDA, ADORACION GENARO TRISTAN, SR. CELESTINO RODRIGUEZ CASTAÑEDA.
5. Estructuras del capital social % Mexicano ____ % Extranjero

   País
6. Inversión total (activo total) $ 4'702,236.98
7. Superficie de terreno ocupada ___ m^2 Superficie construída ___ m^2
8. Personal ocupado 67
9. Origen de las materias primas NACIONAL
10. Mercado

    Principales Ciudades GUADALAJARA Exportan sus productos X SI ___ NO

    ¿A dónde?

    ESTADOS UNIDOS, CANADA, ALEMANIA Y JAPON

    ¿Qué porcentaje representa?

    20 %

    Monto de ventas anuales $ 10'035,000.00
11. Capacidad de producción instalada / mes o día 15,550 PIEZAS

    Utilizada 8,330 PIEZAS
12. Origen de la maquinaria y equipo NACIONAL
13. Apoyos recibidos del PAI

    X Crédito FOGAIN monto $1'218,000.00 Destino FABRICACION CERAMICA

    ___ Capital FOMIN monto ______ % del Capital Social ______

    ___ Crédito FIDEIN monto ______ Objeto ______

    ___ Crédito FONEP monto ______ Objeto ______

    ___ Otros organismos PAI (CENAPRO-ARMO, INFOTEC, IMIT, A.C.)

    Especificar ______
14. Inversiones previstas al futuro:

    Año ______ Monto ______

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1773001 REALME
WASHINGTON DC 05 MAR 82
PAGE 1
TO:
A.W. CLAUSEN, PRESIDENT 6109

WORLD BANK, HOTEL CAMINO REAL, MEXICO CITY, MEXICO.
BETAGRAM 3. NEWS SUMMARY FOR THE PRESIDENT. MARCH 5. THE HEADLINES: AFRICAN GOVERNORS OF BANK CRITICIZE SUB-SAHARAN REPORT AND REJECT AID REDUCTION, DE LAROSIERE ADVOCATES WORLD MONETARY STABILITY, MAHBUB UL HAQ EXPRESSES UNCERTAINTY ABOUT WDRLD BANK FUTURE, AND FORMER JAPANESE PRIME MINISTER OKITA DISCLOSES GIST OF DISCUSSIONS WITH WORLD BANK OFFICIALS ON RECENT TRIP TO U.S. NOW DETAILS. THE FRENCH NEWS AGENCY REPORTS FROM DAKAR THAT AFRICAN GOVERNORS OF THE WORLD BANK AND THE IMF HAVE SLAMMED A WORLD BANK REPORT MAKING A BIG INCREASE IN AID CONDITIONAL ON ECONOMIC REFORMS. THE GOVERNORS AGREED IN PRINCIPLE ON THE NEED FOR REFORMS TO ACCELERATE DEVELOPMENT, BUT DIMISXED THE WORLD BAN
AGAIN FROM:

THE GOVERNORS AGREED IN PRINCIPLE ON THE NEED FOR REFORMS TO ACCELERATE DEVELOPMENT, BUT DISMISSED THE WORLD BANK'S PROPOSAL TO TIE INCREASED AID TO REFORMS IN PUBLIC ADMINISTRATION, MONETARY POLICIES, AGRICULTURE AND INDUSTRY. INFORMED SOURCES SAID SEVERAL GOVERNORS STRESSED THE POLITICAL NATURE OF THE REPORT, AND SAID THAT EACH COUNTRY'S PUBLIC SECTOR, MONETARY POLICIES AND PRICE STRUCTURES WERE PURELY ITS OWN CONCERNS. ALGERIAN FINANCE MINISTER AGABID HAMID SAID THE WORLD BANK HAD PROPOSED REFORMS FOR THE BENEFIT OF 'BIG FOREIGN CAPITAL', RATHER THAN FOR THE AFRICAN

PAGE 2
NATIONS THEMSELVES. ANOTHER NEWS AGENCY, AP-DOW JONES REPORTED THAT AFRICAN GOVERNORS REJECTED A PLANNED DLR 1 BILLION

PAGE 3
REDUCTION IN DEVELOPMENT AID. IN A MEMORANDUM THEY DEPLORED THE PLANNED REDUCTIONS IN 1982 ASSISTANCE BY IDA. THEY ASKED THE WORLD BANK TO STUDY THE POSSIBILITY OF SETTING UP A MECHANISM FOR AUTOMATIC REPLENISHMENT OF IDA FUNDS AND SUPPORTED THE WORLD BANK'S INTENTION TO CHANNEL 30 PERCENT OF IDA'S DEVELOPMENT ASSISTANCE TO AFRICAN COUNTRIES SOUTH OF THE SAHARA. THE MEMORANDUM WILL BE SUBMITTED TO THE DEVELOPMENT COMMITTEE MEETING IN HELSINKI IN MAY. PARA. IN AN INTERVIEW WITH THE IPS NEWS AGENCY LAST WEEK MAHBUB UL HAQ SAID HE WAS LEAVING THE WORLD BANK 'VERY UNCERTAIN ... AND DISTURBED' ABOUT ITS DIRECTION AND FUTURE. THE BANK'S 'POSITIVE ACCOMPLISHMENTS' OVER THE PAST DECADE ARE INCREASINGLY 'THREATENED' BY 'BILATERAL PRESSURES' FROM THE U.S., HAQ TOLD IPS. THESE PRESSURES 'MIGHT GREATLY COMPROMISE THE INTERNATIONAL CHARACTER OF THE INSTITUTION,' HE SAID. 'BASICALLY,' HE CONTINUED, 'I BELIEVE IT IS FOR THE WORLD BANK MANAGEMENT AND BOARD TO STAND UP AGAINST THESE BILATERAL PRESSURES AND TO ENSURE THAT THE INTERNATIONAL CREDIBILITY OF THE INSTITUTION IS NOT ERODED.' HE ALSO SAID HE FEARED THAT THE BANK MIGHT SLIDE BACK FROM A DEVELOPMENT AGENCY INTO A COMMERCIAL BANK. THIS, HE ARGUED WOULD MEAN THAT THE BANK WOULD NOT 'STAND AS A COMPASSIONATE AND

PROFESSIONAL INTERMEDIARY BETWEEN THE MARKETPLACE AND THE DEVELOPING COUNTRIES AND CUSHION THE POOR NATIONS AND POOR PEOPLE AGAINST THE EXCESSES OF THE MARKET. MY OWN FEELING IS THAT THE TEST OF SURVIVAL OF BRETTON WOODS IS CLOSE AT HAND,' HAQ SAID, ADDING THAT DONOR COUNTRIES TO THAT SOFT LOAN WINDOW OF THE BANK, IDA, SHOULD 'DE-LINK' THEIR CONTRIBUTIONS FROM THOSE OF THE U.S. IN REVIEWING HIS 12 YEARS AT THE BANK, HAQ LISTED SEVERAL 'POSITIVE ACCOMPLISHMENTS: MORE IMPORTANT THAN THE 11-FOLD INCREASE IN BANK LENDING DURING THE PERIOD,' HE SAID, WAS THE FACT THAT 'THE FOCUS OF LENDING SHIFTED TO POOR NATIONS AND POOR PEOPLE WITHIN NATIONS. THE BANK ALSO ADOPTED A VERY PRAGMATIC ATTITUDE TOWARDS THE PUBLIC AND PRIVATE SECTOR WHICH WAS A REFRESHING CHANGE FROM THE PREVIOUS IDEOLOGY,' HAQ SAID. 'WHEN I CAME TO THE BANK IN 1970, NOT A SINGLE PENNY HAD BEEN GIVEN TO ANY NATIONALIZED INDUSTRY. BUT OVER THE LAST 10 YEARS, THREE-QUARTERS OF OUR LENDING HAS BEEN TO PUBLIC SECTORS. BASICALLY,' HE CONTINUED, 'WE CAN'T ASK THE QUESTION AS TO WHETHER THE INVESTOR IS PUBLIC OR PRIVATE, BUT ONLY WHETHER IT WILL FURTHER ECONOMIC EFFICIENCY AND SOCIAL EQUITY. THEN ALSO THERE WAS A MAJOR DIVERSIFICATION IN THE SOURCES OF FINANCE IN THE BANK ... THE U.S. WENT DOWN TO LESS THAN A QUARTER

OF TOTAL LENDING TO THE BANK ... FROM 50 PERCENT FOR THE FIRST IDA. THE DIVERSIFICATION OF SOURCES OF FINANCE GREATLY CONTRIBUTES TO THE STRENGTHENING OF AN INTERNATIONAL INSTITUTION, BECAUSE IT SHOULD NOT BE DEPENDENT ON JUST A SINGLE SOURCE OF FUNDING. SIMILARLY, THERE WAS A MAJOR CHANGE IN BANK STAFF AND MANAGEMENT. IN 1970, OVER 70 PERCENT OF OUR STAFF WAS ANGLO-SAXON. BY 1980, LESS THAN 40 PERCENT. PARA. LOWER INFLATION AND RESISTANCE TO PRESSURES AIMED AT 'FRAGMENTING' THE WORLD ECONOMY COULD BRING GREATER MONETARY STABILITY, IMF MANAGING DIRECTOR JACQUES DE LAROSIERE SAID IN MINNEAPOLIS, MARCH. 4. ADDRESSING THE LOCAL FRANCO-AMERICAN CHAMBER OF COMMERCE, HE ADVOCATED A BIG EFFORT TOWARDS WORLD MONETARY STABILITY, EVEN THOUGH THE TIME 'MAY NOT BE RIGHT' FOR OUTRIGHT MONETARY REFORM. IN AN OBLIQUE REFERENCE TO THE U.S., MR. DE LAROSIERE SAID 'SOME COUNTRIES' RELIED TOO HEAVILY ON MONETARY POLICIES IN THE BATTLE AGAINST INFLATION, THEREBY PRODUCING HIGH INTEREST RATES. THE IMF CHIEF CRITICIZED THE BUDGET DEFICITS OF INDUSTRIALIZED COUNTRIES, WHICH HE SAID HAD DOUBLED IN RELATION TO GNP SINCE 1973. BUT HE ADDED THAT 'THE LARGE AND OFTEN EXCESSIVE SAVINGS' IN THE EXCHANGE RATES OF MAJOR CURRENCIES COULD BE REDUCED AS A RESULT OF MORE ACTIVE

CONSULTATIONS OF MEMBER COUNTRIES BY THE IMF. MR. DE LAROSIERE SAW NO 'CONVINCING SIGNS' OF AN EARLY ECONOMIC RECOVERY. HIGHLIGHTING A MAJOR PROBLEM OF OIL-IMPORTING DEVELOPING COUNTRIES, HE SAID MANY OF THEM WERE HEADING FOR BALANCE OF PAYMENTS DEFICITS OF AT LEAST 13 PERCENT OF GNP DASH DASH A THREE-FOLD INCREASE IN TEN YEARS. PARA. THE NIHON KEIZAI SHIMBUN, MARCH 2 AND 3 CARRIED A TWO-PART ARTICLE BY FORMER JAPANESE PRIME MINISTER OKITA IN WHICH HE DESCRIBED DISCUSSIONS HE HAD WITH YOU AND OTHER SENIOR WORLD BANK OFFICIALS ON A RECENT TRIP TO EUROPE, THE U.S. AND CENTRAL AND SOUTH AMERICA. MR. OKITA CONCLUDED THAT IN LIGHT OF THESE DISCUSSIONS THE ISSUE FACING JAPAN WAS WHETHER IT WILL GO ALONG WITH THE U.S. GOVERNMENT'S REDUCTION IN CONTRIBUTIONS TO IDA OR CHOOSE TO GO ITS OWN WAY AS A MAJOR DONOR NATION. PARA. LE MONDE OF MARCH 4 REPORTED AN OECD STUDY ON AID WHICH SAID FRANCE SEEMED TO BE FULFILLING HER PROMISES IN TERMS OF PUBLIC AID TO DEVELOPMENT. IN THE SAME ISSUE PHILIPPE LEMAITRE, THE PAPER'S EEC CORRESPONDENT COMMENTED ON THE INFORMAL MINISTERIAL MEETING HELD ON MARCH 2 BY THE TEN ON DEVELOPMENT PROBLEMS. MEMBER STATES, IN PARTICULAR FRANCE, HAVE INSISTED THAT THE OPENING OF GLOBAL NEGOTIATIONS SHOULD REMAIN THE FUNDAMENTAL OBJECTIVE OF DEVELOPING COUNTRIES.

SOME GOVERNMENTS LIKE THE U.K. AND GERMANY ARE ANXIOUS NOT TO DO ANYTHING THAT MIGHT DISPLEASE THE U.S., HE SAID. IN SPITE OF THEIR CAUTIOUSNESS, EEC MEMBERS ARE AGREED ON THE NECESSITY TO SEIZE AN OPPORTUNITY THAT WILL ENABLE THE COMMUNITY TO ACT IN FAVOR OF THE THIRD WORLD, LEMAITRE WROTE. PARA. THE WALL STREET JOURNAL SAID IN A FRONT-PAGE REPORT TODAY THE U.S. ADMINISTRATION'S PROPOSAL FOR INCREASED AID TO THE CARIBBEAN BASIN NATIONS 'GETS GOOD REVIEWS, BUT RESISTANCE LOOMS.' THE JOURNAL SAID 'EVEN SYMPATHETIC LEGISLATORS SHRINK FROM VOTING FOR ADDED FOREIGN AID IN AN ELECTION YEAR SEMICOLON SOME AIDS PREDICT THAT THE DLR 350 MILLION PACKAGE WILL BE WHITTLED DOWN.' ALSO, SUGAR-STATE LAWMAKERS ALREADY TURN SOUR ON THE PROPOSED LIFTING OF DUTIES ON SUGAR IMPORTS FROM THE CARIBBEAN. THE NEW YORK TIMES REPORTED THAT REPRESENTATIVE CLARENCE LONG, CHAIRMAN OF A KEY SUBCOMMITTEE, TOLD SECRETARY OF STATE HAIG THAT HIS SUBCOMMITTEE WILL NOT CONSIDER THE SUPPLEMENTAL REQUEST FOR AID FUNDS UNTIL CERTAIN 'RAW INTELLIGENCE DATA' WAS MADE AVAILABLE FOR HIS INSPECTION. PARA. IN DOMESTIC NEWS, THE NEW YORK TIMES REPORTS SENATE REPUBLICAN LEADERS ARE TRYING TO DISCOUNT THEIR DIFFERENCES WITH PRESIDENT REAGAN EVEN AS THEY PREPARED BUDGET ALTERNATIVES THAT REAGAN HAS SAID HE DOES NOT WANT.

REPUBLICAN LEADERS HOPE TO HAVE RECOMMENDATIONS TO PRESENT TO MR. REAGAN WHEN HE RETURNS FROM CALIFORNIA NEXT WEEK. SENATE MAJORITY LEADER BAKER REPORTEDLY HAS SENT A PRIVATE MESSAGE TO THE PRESIDENT EXPRESSING HIS CHAGRIN AT REAGAN'S DENUNCIATION OF 'SO-CALLED ALTERNATIVES' TO HIS BUDGET AS 'POLITICAL DOCUMENTS DESIGNED FOR SAVING CERTAIN LEGISLATOR'S POLITICAL HIDES RATHER SAVING THE ECONOMY'. PARA. THE NEW YORK TIMES ALSO REPORTED THAT ADMINISTRATION OFFICIALS HAD EXPRESSED FEARS THAT AN ISRAELI ASSAULT OF LEBANON WAS IMMINENT. THEY SAY THAT THE ISRAELI GOVERNMENT HAS BEEN EXPRESSING JUSTIFICATION FOR SUCH AN ASSAULT BY ISSUING INCREASING CHARGES OF A PALESTINIAN MILITARY BUILDUP IN SOUTHERN LEBANON AND BROADER WARNINGS ABOUT WHAT WOULD CONSTITUTE A PROVOCATION. PARA. FINALLY, PRESIDENT REAGAN ANNOUNCED HE WILL NOMINATE GENERAL JOHN W. VESSEY TO BECOME CHAIRMAN OF THE JOINT CHIEFS OF STAFF TO SUCCEED GENERAL DAVID C. JONES WHO IS RETIRING JULY 1. REGARDS, KOELLE.

1773001 REALME

ABOVE VIA RCA FROM 248423 WORLDBK7
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The following is a special advertising section

MEXICO

Managing for growth

The startling gains of recent years

Mexican President José López Portillo is a realist. As he recently reported to Mexico's Congress, "disorder in the world economy" is putting the plans of his administration to a severe test. The weakness of Mexico's major trading partners is threatening López Portillo's primary objective: "growth, oriented to the creation of employment and to better income distribution." And his pursuit of this objective, in combination with the cost spiral in the rest of the world, has sent prices spiraling at home. "The country," says López Portillo, "is experiencing an inflationary process that we have hardly begun to check."

The word on which to focus, however, is "begun." The Mexican government *has* begun to check its inflation. It is coming down. Unemployment remains high, but it is also coming down. Indeed, for several years job creation has outstripped population growth. Measures to establish and enforce social justice throughout the country have been highly effective. Real income is up. All strata of the populace have benefited from improvements in living standards. For example, more people–many more people–now have drinking water, on tap; and roads are reaching out to villages previously cut off from the progress of the rest of the economy. And that progress has been steady and impressive. Mexico has kept on growing–and growing rapidly. A visitor soon concludes that, to the extent that any country today controls its own destiny, Mexico does.

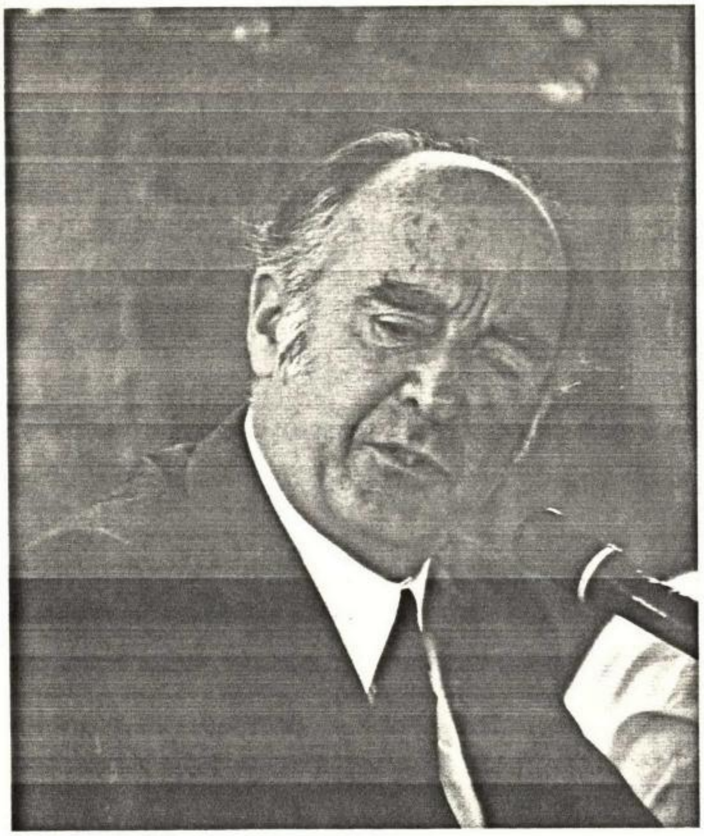
López Portillo, who took office in December, 1976, is not brash about the achievements of his administration, however. "We have not enjoyed unmitigated success," he points out. The fact is, though, that the economy he will hand over to his successor on December 1 (under Mexican law no president can succeed himself) is under control and infinitely promising. Even if the world slowdown is not reversed soon, the Mexican economy is now on a sufficiently sound footing that Mexico can ride out the storm. And, when the world economy picks up, Mexico will be one of the most exciting investment prospects on earth. William D. Mulholland, chairman of the Bank of Montreal, whose bank has lent billions of dollars to Mexico, notes that when the bank held a 1981 directors' meeting in Mexico, it was *not* to show confidence. If bankers need to show confidence in a country, he says, the last thing they should ever do is go to that country and show the flag. In Mexico, he continues, Bank of Montreal was able to hold its first-ever meeting outside Canada "precisely because it was one place where no show of confidence was necessary."

A dramatic upturn

Mulholland was a willing lender to Mexico at the beginning of López Portillo's term: "When their delegation arrived on our doorstep [to ask us about borrowing], we gave them the answer before they could ask the question"–though, of course, he knew what the question would be. But not all bankers felt the same way, and the economy at the end of López Portillo's administration will be more vigorous than when he took office in December, 1976. GDP was still growing but at a rate considerably below that of previous years, dropping to just 2.1 percent in 1976. Public sector debt had climbed to 10 percent of GDP, while foreign investment had slowed. On August 31, 1976, the peso was devalued from the level of 12.5 to the dollar of the preceding 22 years to, at one point, 29.

With López Portillo's coming to power, the peso bounced back. One of the more remarkable aspects of his administration has been its ability to maintain the value of the currency. It has been particularly remarkable in the light of López Portillo's

URSULA BERNATH



President José López Portillo says of his country: "Despite its problems, it has a growing economy and is providing jobs as never before in history . . . it is beginning to achieve financial self-determination, and is well on the way to self-sufficiency in food."

other achievements. Economic growth has climbed to around 8 percent. The deficit as a percentage of GDP has sunk to around 6 percent. Foreign investment, again according to *The Wall Street Journal*, "doubled in each of the last three years"–reaching $3 billion in 1981.

Investment, domestic as well as foreign, has produced some striking gains in Mexico's production and potential. The best known, of course, have been in oil and gas. The country's proven reserves are now 72 billion barrels; not many people outside Mexico realize that it is now the fourth largest holder of proven reserves in the world–or that in potential reserves it now rivals Saudi Arabia.

Investment in agriculture has also been a López Portillo priority. Four years of extremely bad weather forced Mexico to be a net importer of foodstuffs from 1977 through 1980; but, says Alfredo Phillips Olmedo, a deputy director of the Bank of Mexico with special responsibilities for international affairs, "this year we're expecting a bumper crop," and Mexico should be a net exporter in 1981 and the future.

Also up sharply was the production of such industrial basics as steel, cement and petrochemicals, to which López Portillo has directed investment. In the course of his term, Mexico will have increased its steel production by well over 20 percent. Says Central Bank Governor Gustavo Romero Kolbeck, "we've been doubling the capacity of our steel industry, while the industrialized countries have been running theirs at 50 percent."

While such industries as steel are not the most glamorous in terms of return on investment, the bottom line to López Portillo has been not profitability, but the establishment of a balanced economy that permits growth. Growth means jobs, and the growth of the Mexican economy in just the last four years has generated 3.25 million jobs. At the same time, in a development that many foreign financiers see as especially encouraging, the administration has succeeded in slowing population growth. Despite a drop in infant mortality, the number of Mexicans under 5 at the 1980 census was 9.28 million–against 10.28 million over 5 but under 10. Population growth has dropped from 3.5 percent to 2.7 percent, and the administration expects it to be down to 2.5 percent when López Portillo leaves office at the end of the year. "We've absorbed all the supply of labor that has been offered to the market, plus some of what had been left over during the stagnation of the previous years," says José Angel Gurría Treviño, director of foreign financing at the Mexican Treasury. Alfredo Phillips says this is the first time in Mexico's history that this has happened, and he makes the point that Mexico has achieved this employment growth while employment in the rest of the world has, unfortunately, headed in the other direction.

Oil is only part of the story

Mexico's ability to buck the trend has been due in large part to oil. The value of its petroleum exports has leapt from $436 million in 1976 to an estimated $13.8 billion in 1981. But the Mexicans insist, not unreasonably, that theirs is not "an oil country." Not unreasonably, for a number of reasons.

First, as López Portillo says, "oil accounts for barely 7 percent of GDP, while in [typical] oil-exporting countries the proportion represents about 46 percent." Despite the growth of oil exports, he adds, "they still represent only 38 percent of Mexico's receipts from abroad–[whereas] in many oil-exporting countries this source of foreign exchange amounts to more than 90 percent."

The second difference is that Mexico is rich in so many other natural goods. The country is the world's largest producer and exporter of silver. It is one of the five leading producers of a number of other minerals–mercury, lead and zinc, for example–and it now claims the world's largest open cast copper mine. It is also, of course, exceptionally well endowed with features that attract foreigners, from Pacific and Caribbean beaches to Mayan, Aztec and Toltec archaeology; and although inflation at home and recession overseas have cut down Mexico's tourism surplus, it is estimated at $500 million for 1981.

A third difference between Mexico and the typical oil country is that the development of Mexico's economy is not a recent phenomenon sparked by the oil discoveries of the early years of the López Portillo administration. As Deputy Finance Minister and Undersecretary of State at the Treasury Department Jesús Silva-Herzog notes, in the pre-oil-boom years from 1940 to 1975, the average rate of growth of Mexico's economy was around 6 percent, enough growth "to permit a sustained improvement in the well-being of the population." Mexico has been building an industrial base for many years, has much of the infrastructure needed for further growth and has a large population and trained labor force.

It should be pointed out, too, that the country boasts an extraordinarily deep well of history and creativity on which to draw. As Arnold Toynbee noted, advanced cultures such as those of the Maya were flourishing in Mexico when Europe was in the Dark Ages and most of North America was inhabited largely by buffalo.

While its population is one of Mexico's key long-term assets,

PETROLEUM RESERVES (billions of barrels)
(crude oil, natural gas and natural gas liquids)

Year	Proven	Probable	Potential
1976	11.2	—	—
1977	16.0	—	—
1978	40.2	45.0	200.0
1979	45.8	45.0	200.0
1980	60.0	38.0	250.0
1981	72.0*	58.6*	250.0*

*August, 1981 Source: PEMEX

it will be something of a short- and medium-term liability until the process of net job creation has been in effect for some years to come. Nobody knows exactly what percentage is unemployed; in a country like Mexico, where the agricultural sector is so large, it is impossible to say how many are "employed" and how many are not. As Leopoldo Solís, chief economist of the Bank of Mexico, explains, Mexico is so different from Western countries that "the concept of unemployment does not have much sense here–it's a Keynesian concept of British coinage that is proper for Britain but not for Mexico."

This is far from acceptable, says the governor of the Central Bank, and nobody in the Mexican government is kidding himself that the millenium has arrived. "I am not saying we have solved every problem–far from it," says the President himself. In the production of such staples as milk and sugar, he said in his State of the Union message, "there has been no progress." There are bottlenecks at the ports and in transportation. There have been electricity shortages. There are import controls. And, of course, there is inflation, now running at nearly 30 percent.

Assurance for the future

If Mexico's economy, however, is as firmly under the control of its managers as it seems and as will be shown in the following pages, the country's future can be as glorious as its past. Even if the international trade situation deteriorates, Mexico can manage. After all, most of the time since Mexico's latent oil potential started to come to the surface, the world economy has been something less than vigorous–but, observes Romero Kolbeck, "we've still managed to keep growing at 8 percent." And now, says Víctor Manuel Herrera, president of Mexico's Bankers' Association, the strengthening of the agricultural sector makes Mexico a lot less dependent on the outside world; moreover, he adds, the growth of the country's internal market provides a comfortable cushion.

Approaching the end of his mandate, López Portillo has summed up the record: "We never promised you a rose garden . . . but Mexico, despite its problems, has a growing economy and is providing jobs as never before in its history . . . it is beginning to achieve financial self-determination and is well on the way to self-sufficiency in food." With not unreasonable satisfaction, the Mexican president adds, "Not many countries can say the same." ♦

Political stability and continuity of policy

"Counterbalancing all Mexico's problems," says the executive vice president of one of the world's biggest banks, "they've got this marvelous political stability." This factor, and the continuity of policy it implies, is key to the international banking community's confidence in the loans it has made to both public and private sectors in Mexico.

In most Latin countries–and indeed in many Western countries –the prospect of a new governing regime gets bankers bothered. At worst, the newcomers can threaten repudiation of debts, or at least insist on rescheduling. At best, they can bring in dramatic shifts in policy, casting doubt on their ability to meet obligations.

While Mexico is Latin par excellence, there is no threat of such a change. In the first place, barring a political upheaval of cataclysmic proportions, the party presently in power will stay in power, and López Portillo's successor will be the man who the party chose, Miguel de la Madrid Hurtado. In the second place, de la Madrid is not likely to repudiate López Portillo's economic policies since, as Minister of Planning and Budget, he played a key role in their formulation and implementation. "The candidate," as one banker notes, "has been chosen with a view to continuity of policy."

The near-certainty that de la Madrid will win the election stems from his and López Portillo's party's long dominance of the Mexican political scene. While Mexico is a democracy, with free elections and a free press, one party has long been overwhelmingly favored. The Partido Revolucionario Institucional (PRI) first won the presidential election in 1929, and it has won every presidential election since. The PRI also has a majority in Congress. López Portillo has brought in political reforms that ensure that minority parties are strongly represented in the Chamber of Deputies. However, the PRI presently holds 296 of the 400 seats there–and 63 of the 64 seats in the Senate.

Mexicans note with amusement the concern of some U.S. commentators about Communist strength in their country. There is some grumbling about the PRI's dominance at election time every six years, but as long as the party's elected representative keeps Mexico's problems under control–as López Portillo has done, and as most lenders to Mexico are confident de la Madrid will do–it is not likely to be seriously challenged. ♦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Miguel de la Madrid Hurtado, the candidate most likely to be the next president of Mexico, is currently Minister of Planning and Budget. Since he played a key role in the formulation of current economic strategies, a continuity of policy under a new administration is virtually assured.

How the Mexican economy is managed

"Before we can sell foreigners on the soundness of our paper," say executives of Nacional Financiera, Mexico's development bank, "we have to show them who and what makes our whole economy tick."

To most outsiders, the Mexican economy is something of a mystery. Among the economies of the industrialized West, the one it most resembles is that of France. The cultural and conceptual ties between the two countries are close. Recent Mexican art has much in common with French Impressionism, Mexican law is largely based on that of France, and Presidents López Portillo and François Mitterrand think on similar lines about the duties of the industrialized nations toward the Third World. Mitterrand, in fact, was the West's keenest proponent of the recent Cancún Conference, and Mexico is much admired in France. As Mitterrand said recently, "the world feels it has something to gain from Mexico . . . a country that stands out for two notable characteristics–political stability and economic momentum."

The similarities between the two countries' economic goals are equally close. In both France and Mexico, today's key economic drive is toward growth and job creation. And in Mexico there is much more than a dash of *dirigisme*. The state orients credit allocation, sets the interest rate on deposits, wholly owns the largest company–Petroleos Mexicanos (Pemex)–and controls hundreds of smaller ones, runs the railroads, electricity and telephone services, and partially subsidizes agriculture, fisheries and a gamut of basic industries.

A monetary policy that reinforces government planning

Nowhere is the influence of the government–and of the government itself, as opposed to an arm of the government–more apparent and firmer than in the management of Mexico's money supply and of the value of its currency. Whereas in the U.S. and most industrialized nations, the central bank is a relatively independent government body, the Bank of Mexico is an integral part of the ruling administration. The Bank works hand in glove with the Treasury: the Governor of the Bank is appointed by the President of the country for a six-year term concurrent with the President's own.

Obviously, says Leopoldo Solís, one of the Bank's most senior officials, this organizational structure provides the Bank of Mexico with less autonomy–but it produces, in general, close coordination of policy. "Both monetary and fiscal policy are directed from both the Bank and the Treasury," says Solís. The Bank also acts as fiscal agent for the government, points out Alfredo Phillips, and the resultant totally coordinated system, in officials' eyes, is immensely beneficial. Says one, "You don't get the situation you recently saw in the U.S.–which has been the bugbear of such economists as Henry Kaufman–of an expansionary fiscal policy running up against a restrictive monetary policy."

The administration thus enjoys a control over monetary policy that is available to few administrations of Western countries. And it makes this control practical by providing its Central Bank with an out-of-the-ordinary array of weapons.

"The most powerful is our reserve requirement," says Miguel Mancera, number 2 man at the Central Bank. The Bank of Mexico sets the requirement at rates that would cause wringing of hands and gnashing of teeth among private sector bankers in most countries: 41 percent on peso deposits and 70 percent on dollar deposits. Mancera acknowledges that these rates are "very high," but he points to one alleviating factor: "We pay interest on these reserves at what we consider a fair rate–the rate paid by the banks themselves to their depositors, plus a margin corresponding to their cost of raising the money." The net result, he says, is that the level of the reserve requirement "should not be a burden to the banks in terms of their profitability"–although, he concedes with a smile, "it may be a burden in the sense that it cuts down their lending capacity."

Mancera also concedes that the reserve requirement, at this sort of level, is not the ideal weapon. Mexico has maintained the present rates for three years–and for day-to-day, month-to-month management of monetary growth, it relies on other measures.

The first of these is an open-market operation, based on "Cetes" (Certificados de Tesoreria–the equivalents of Treasury Bills), which the Bank of Mexico began in 1978. Up to now, says Mancera, the Bank has been building the market for these bills–"you can't conduct open-market operations until you have a market"–but he feels this market is now "of some significance." Cetes held by entities other than the Central Bank itself are now of the order of 75 billion pesos ($3 billion)–"which is enough to make possible open-market operations large enough to affect credit conditions."

Complementing the Central Bank's buying and selling on the open market is a third instrument. "When we want to inject liquidity into the system for a short period," says Mancera, "we have *auctions* of credit," at which the private banks bid for the right to loan specified amounts for specified times. The amount involved may be three or four billion pesos, and the Bank may run several such auctions each week for four or five weeks at a time, so that it increases credit by 15 or 20 billion pesos (a little less than $1 billion) in a month.

The Bank of Mexico feels this method has two advantages over the discount window operation traditional in other parts of the world. In the first place, says Mancera cheerfully, "you can be sure the banks are paying the real cost of money, whereas at a discount window you always have the apprehension that you may be giving them a present." In the second place, "it is the Central Bank that decides precisely the dose of liquidity injected"–whereas in a discount window system, it is the outside bankers who decide how much they are going to take.

If such basic methods suggest the tightness of the Mexican Central Bank's control of the fundamentals of liquidity, its recent actions toward foreign banks in the country demonstrate this control more pointedly. "Foreign credit is most welcome in Mexico," says Mancera, "provided the inflow of capital is consistent with monetary policy." To ensure that it is indeed consistent, Mexico asks the foreign banks to submit their plans to the Central Bank–and to do so not just for information but for *approval*.

By using strict measures of this type, the Bank has managed to keep monetary growth in hand. Romero Kolbeck recently stated that it had been cut from 40 percent in the early part of 1981 to 33 percent over the last few months–and while such growth might look worrisomely high to theorists from most industrialized countries, the practical performance of the Mexican peso (against the currencies of most of these countries) suggests that investors find it acceptable.

A controlled float

That Mexico has been able to hold the devaluation to this order of magnitude (approximately 12 percent for 1981 as a whole), despite its inflation rate and despite the summer reduction of its oil exports, is both evidence of investor confidence and a tribute to its management capability. It has employed a tightly-controlled float to achieve a managed downward adjustment that compares favorably with the leaps and bounds of most major currencies–and very favorably with the dramatic devaluation that took place under the preceding administration.

The decision to allow the currency to float at all took courage. "All the mentality in Mexico favored fixed exchange rates," says Romero Kolbeck. And the Finance Ministry's Silva-Herzog, who says the move was a "qualitative leap," makes the point that the Bank of Mexico's control of the move served an important purpose: it has shown people making business and investment decisions in Mexico that they need not be afraid of this type of adjustment. "To the extent people can be reasonably sure that any adjustment will be controlled," he says, "they can adjust their own expectations and their business and investment plans."

The reaction of the business community to the controlled float proves Silva-Herzog's point. As he points out, private (as well as public) investment in Mexico has continued to be enormously, and consistently, high–about a 15 percent annual increase, in real terms, over the past four years, so that in 1981 it accounted for 25 percent of GDP. Herrera of the Banker's Association, noting that "banking activity is based on confidence," says that Mexico's method of floating breeds confidence. "We're happy with the mini-devaluations," he says. And although some foreign commentators, particularly in the U.S., are exhorting Mexico to take another maxi-devaluation instead, the Mexican authorities are managing their own business in their own way–and apparently achieving the results they aim for.

Able and experienced managers

The attention to detail of Mexico's managers requires a degree of dedication that surprises some outsiders. Many foreigners, including some foreign financiers, still visualize Mexicans in the stereotype–sleeping in the sun and talking about tomorrow. Those who know the country well don't think that way at all. "The notion of Mexican indolence is widespread in North America, and it's a myth," says banker William Mulholland. Mexico's technocrats, in his experience, "keep hours that would kill a horse."

Mulholland adds that these managers "are sophisticated and knowledgeable, and could hold their own anywhere." They have been thoroughly prepared for their roles. For instance, 61-year-old Jorge Espinosa de los Reyes, Director-General of Nacional Financiera, studied at the London School of Economics under such great theorists as Sir John Hicks and Friedrich von Hayek–and, before coming to "Nafinsa," worked in Pemex, the Bank of Mexico, and the Secretariat of the Presidency. Romero Kolbeck, 58, is a graduate of the University of Chicago, who spent eight years at the Ministry of Programming and Budget, two years as Ambassador to Japan, and two and a half years as head of Nafinsa before coming to the Central Bank. Finance Minister David Ibarra Muñoz, 52, took a doctorate in economics at Stanford University, spent two years as deputy to Romero Kolbeck at Nafinsa, and succeeded him as head of Nafinsa.

Men of this caliber move in and around the management of the Mexican economy like figures in a formal dance–or, as one Mexican technocrat put it less reverently, "like players in a game of musical chairs."

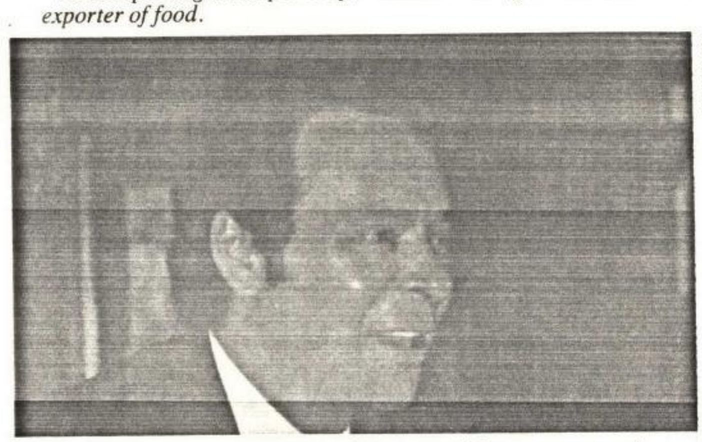
One result is continuity of policy. López Portillo was Minister of Finance before becoming president. Miguel de la Madrid holds an MBA in public administration from Harvard, was Min-


URSULA BERNATH

Miguel Mancera, Bank of Mexico: "Foreign credit is most welcome in Mexico."


URSULA BERNATH

Alfredo Phillips Olmedo, Bank of Mexico, says that because "we're expecting a bumper crop," Mexico can again be a net exporter of food.


MARC RETO

Jesús Silva-Herzog, Ministry of Finance: "There was enough growth to permit a sustained improvement in the well-being of the population" even during the pre-oil-boom years.


URSULA BERNATH

José Angel Gurría Treviño, Ministry of Finance: "Total public debt at the end of 1981 could be paid off with around 2 percent of our proven oil reserves at today's prices."

ister of Planning and Budget before becoming the presidential candidate, and deputy secretary of the Treasury before that.

Another result is that everyone in high office adheres to the Global Development Plan. Just as the Central Bank and the Finance Ministry "play on the same team" in regard to fiscal and monetary policy, all the Ministries, and the most powerful semigovernmental bodies such as Nafinsa, work for the objectives of the Plan. As the prospectus for Mexico's most recent fixed-rate borrowing puts it, the Plan is "the cornerstone of the Government's economic and social policy." The Plan "identifies national economic and social problems and calls for specific action by the public sector"–and the public sector takes them.

The coordinated goal: sustained growth

Heads of government from Dwight D. Eisenhower to Margaret Thatcher have lamented the failure of their associates and subordinates to follow their wishes. This kind of complaint comes rarely from Mexico's leaders. Under the Plan, "The Government is committed to improving employment opportunities." Meeting this objective will be dependent upon continued economic growth, says the Plan, so *everyone* in Mexico's government is dedicated to growth, and to growth on a sustained, continuing basis.

Gurría says that sustained growth "sums up everything we're trying to achieve." Sometimes in the past, he says, during the European and Korean wars, for instance, Mexico enjoyed very high rates of growth for relatively short periods. What it must have, he says, and "it's an integral part of the philosophy of the PRI, and embedded in the Constitution," is *sustained* growth of 6 percent. "You don't have a lot of room to become lazy, you need to keep up the pressure all the time," he says emphatically. Why 6 percent, if population growth is now down to 2.7 percent, and should be no more than 2.5 percent by the end of 1982? The "pyramid" nature of Mexico's demographics, Gurría explains, with 54 percent of the population under 20, is going to bring 3.5 percent more people into the labor force each year for some years yet to come. And since Mexico is in the happy position–in comparison with many Western countries–of getting productivity gains of around 2.5 percent a year, that 6 percent growth in jobs is the minimum needed to absorb the additional labor supply.

In the last few years, of course, growth has been substantially higher–it was 8.3 percent in 1980, and approximately 8 percent in 1981. One inevitable trade-off has come in inflation. Consumer prices rose 29.8 percent in 1980, and around 28 percent in 1981.

Other trade-offs have come in shortages of skilled personnel, and simply an excess of demand over supply. As far as the former is concerned, Leopoldo Solís says that "for the first time in our history we have stresses throughout the labor market–professionals and skilled and unskilled labor alike." The stresses are evident in a large number of economic sectors, too; Solís cites "construction workers in the larger cities, for instance, coffee-pickers, cane-cutters." Rubén Aguilar, chief operating officer of Banco Nacional de Mexico, S.A. (Banamex), one of Mexico's largest banks, says there are similar stresses throughout the banking industry–"managers, tellers, every level."

The labor shortages have naturally put pressure on wages and prices, Aguilar observes, as has internal demand. Carlos Abedrop, head of Banco del Atlantico, says that this demand "has been growing too fast for the productive capacity of the economy." Mexico today faces a critical shortage of manufactured goods, he says: "We've been converted from exporters to importers of [the most ordinary basic goods such as] shoes and trousers–overnight."

The consequence has been pressure on prices, and nobody in Mexico questions the theory that the growth demanded by policy has been responsible for Mexico's inflation. What they do question, however, is the theory that it has been *solely* responsible. Solís observes that inflation in the rest of the world has driven up Mexico's import prices, and he reasons that another important factor in Mexico's inflation will shortly cease to be one: "the increase in public sector investment was mainly related to the thrust to build up Pemex' export capacity–and this is now almost completed." Phillips argues that a significant part of the increase in food prices was due to a factor that should be even more transient: the weather.

Curtailment of public spending

Mexico, however, is not treating either its inflation problems, or the contradictory problem of the softness of world oil prices, as bad luck. One of the most important risks confronting a country blessed with oil, in the judgment of 46-year-old Silva-Herzog of the Ministry of Finance, is that "oil permits a country not to do what a country should do." If raising employment is at the very top of the list of priorities in Mexico's Plan, lowering inflation comes right underneath. According to the prospectus, "the government does not intend to reduce the rate of inflation at the cost of slowing the economy's growth or the creation of jobs," but this summer, when the whole economy was clearly under pressure, President López Portillo made the politically tough decision to cut the budget by 4 percent.

In practical terms, says Romero Kolbeck, the effect of the cut is striking. When the ministries and other government entities present their orders to retire funds to the Treasury, "they come in with orders for 100, they get 96."

The psychological effect may be still more noteworthy. "For the first time since 1976 we were actually cutting something," says Silva-Herzog. "It was a dramatic gesture as far as we ourselves were concerned, because it showed us that there were limits to what we could afford." Moreover, while the cut was 4 percent for the year, it had the effect of cutting appropriations by double that amount in the second half–because, starting on July 1, the reduction was applied to the whole year's budget.

As far as overseas lenders and investors are concerned, Silva-Herzog believes the effect on them may be most important of all. "The cut showed the world that we were aware of our limitations–and it told a lot about the realism of the people running the country." ♦

Trade, external debt and inflation: An interview with David Ibarra Muñoz, Minister of Finance

Ibarra Muñoz: "It's difficult to find any other country with as much economic and political stability, and as good prospects for long-term growth, as Mexico."

You recently announced plans to borrow a further $11 billion in the course of 1982. Is the level of your international borrowings getting to be a cause for legitimate concern?

First, I believe the Mexican economy is solid enough to continue to deserve the interest of the world's principal financial institutions.

Second, it's difficult to find any other country with as much economic and political stability, and as good prospects for long-term growth, as Mexico.

Third, we have a very solid basis of exports, of oil *and* other products, that allows us to maintain external debt at an acceptable proportion of national income. Since 1976, external debt has been decreasing as a percentage of GNP, and from now on our need for foreign borrowing is going to decrease in relative terms. We're planning to maintain or even reduce our current account deficit, by increasing exports and controlling imports.

As far as increasing non-oil exports is concerned, what factors hold you back?

The most important is that we have an expanding domestic economy, and the inducement to export is therefore perhaps less than the inducement to produce for the domestic market.

Second, we've got a high rate of inflation [making our products less saleable in the world markets].

Third, we find increasing difficulty in exporting because of the poor shape the world economy is in. Restrictive measures on imports are being imposed by most countries, industrialized as well as developing. There is a worldwide increase in protectionism.

Given your inflation rate, doesn't your support of the peso—at what some commentators consider an artificially high level—also make it difficult to increase non-oil exports?

The strength of the peso is a drawback, but we're trying to compensate for it by giving incentives, such as preferential credit rates, to entrepreneurs willing to make an effort to export. We don't feel we're breaking international trade rules by doing this, because our incentives have been dropping very fast in recent years.

To decrease imports, you've instituted or reinstituted a number of import controls. How long do you plan to retain them?

The measures we're taking are not designed to take us back toward a system of import substitution, but to compensate for the trade crisis that is affecting the international economy.

Our preference is to move toward a more open economy: prior to these controls, the effective amount of protection we ourselves were providing was diminishing rapidly. When and whether we can remove import controls depends on two sets of factors: one, an improvement in the international economy, creating more demand for Mexican products; two, our feelings about the need to increase competition in the domestic market, and to foster productivity.

You'll agree such controls are inflationary, and you're extremely conscious of the need to bring down inflation. What measures are you taking to get it lower?

We're using orthodox monetary measures—maintaining very high reserve requirements and interest rates. And we're concentrating all the liquidity of the public sector in the Central Bank: if the liquidity of our public entities were deposited in the commercial banks, that would increase their credit capacity and therefore the money supply.

We're also taking budgetary measures. In 1981 we cut the budget by 4 percent, and for 1982 we're going to keep public sector expenditures at the same level as those of 1981 in real terms—the levels of 1981 *after* the 4 percent cut.

On top of these, we're taking supply-side measures, trying to break bottlenecks. We've been quite successful in increasing agricultural production and the fishing catch, and we're looking to see what we can do about other bottlenecks—in milk production, for instance, and in improving the training of the labor force.

Do you expect your budget-cutting to have a seriously adverse effect on another of your key objectives, the increase of employment?

You'll get a move toward the private sector and away from the public, but overall job creation will not be meaningfully affected.

You have spoken out forcefully about the need to decentralize the Mexican economy. Can you summarize your rationale?

If you just take a walk around Mexico City, you see the reasons. The city is reaching a point of congestion where you get increasing costs and diminishing returns.

In our three major cities, Mexico City, Monterrey and Guadalajara, we have two-thirds of all our industrial activity, and we need to use our resources, human and physical, in a more rational way. What we're trying to do is to keep people in the provinces and in the rural areas–and to diminish the tendency of some of those in our workforce to go to the U.S.–by creating jobs for them there [in the areas they come from.]

According to the latest figures in your November loan prospectus, there has been a significant increase in the percentage of your exports going to the U.S. What is your policy on increasing or decreasing the U.S. share?

We don't decide as a matter of policy to increase or decrease the share of our trade as we do with any particular country. What we are looking for are trading partners with whom we can get the most favorable terms to increase our exports and reduce the cost of our imports.

Trade between the U.S. and Mexico has several advantages, of business conditions and geographical proximity, and in the border area there are important opportunities to take advantage of complementary factors. What we have on the border now are "in bond" industries. We want to increase these, but we also want to put in integrated industries that could supply our internal market as well as export to the U.S. For instance, we can provide both countries with services that are cheaper in Mexico–such as the repair of transportation equipment, and consulting services in areas such as engineering. ♦

Putting Mexico's debt in perspective

November's news that the Bank for International Settlements had moved Mexico up to the rank of number 1 in international borrowings bothered some Mexican officials, who felt that the "promotion" was not only questionable, but a dubious distinction. But the size of the country's debt doesn't bother most of the bankers who have done the lending. One banker with considerable Mexican paper in his portfolio makes the point that *any* country–"even the U.S."–would find it difficult to pay off its debts, and that countries are not being asked to do so. "If someone were to hold Mexico's feet to the fire and say they had to pay off their debts tomorrow, that would be tough for them," he says. Otherwise servicing their debt presents no problem.

Bankers, moreover, vote not just verbally but with their funds. The rates of interest at which they lend to Mexico have to be concrete indicators of how they feel, and the spreads on Mexico loans suggest they are putting their money where their mouths are. Nobody disputes that the weakness of the world economy has led to a drop in Mexico's anticipated oil earnings for 1981–from the $20 billion estimated in a U.S. loan prospectus of June 2, to the $13.8 billion expected in that of November 13. Despite this, Mexico has managed a significant improvement in its balance of trade. The 1981 deficit will be in the area of $1 billion, down from around $3.2 billion in each of 1980 and 1979. At the same time, Mexico's international reserves have risen: at the end of August they reached $10.4 billion, up from $7.2 billion at the end of 1980 and $5.8 billion at the end of 1979.

With these financial fundamentals developing so favorably, it's not surprising that–even when Mexico ran into a series of well-publicized problems in its oil exports last summer–spreads on its borrowings remained remarkably thin. Since then, CFE borrowed $425 million at ½ percent over LIBOR for eight years, and Nafinsa borrowed $500 million at ⅝ percent for eight years.

So many banks want to lend to the Mexicans, complained one international banker, that "it's very tough to make a dollar on loans to them."

A Baring Brothers-N.M. Rothschild bankers' acceptance facility for Pemex in the fall went to £365 million from a planned £200 million, and the syndicated loan market tells only half the story. In the fixed-rate market, Mexico did pretty well, too. In November, the country sold $100 million worth of five-year bonds at 15½ percent, and a week later placed a DM 100 million at 11 percent for seven years. Both deals "flew very well," according to the Treasury's Gurría. He says, "you have to put our debt in perspective, and what Mexico is paying for its debt today puts it in perspective very tightly. Total public debt at the end of 1981 could be paid off with around 2 percent of our proven oil reserves at today's price." ♦

EXTERNAL PUBLIC DEBT

US $ MILLION	1976	1977	1978	1979	1980	1981*
Direct Debt of the Federal Government	4,442	6,413	7,114	7,057	8,109	—
Debt Guaranteed by the Federal Government	1,687	1,935	2,110	1,960	2,016	—
Other Public Sector Debt	9,814	11,837	15,804	19,298	21,662	—
Total Long-Term	15,923	20,185	25,028	28,315	32,322*	33,417
Total Short-Term	3,677	2,727	1,237	1,442	1,491*	4,640
Total Long and Short-Term Debt	19,600	22,912	26,265	29,757	33,813*	38,057

Source: Bank of Mexico *Preliminary June 30, 1981

The benefits of a coordinated policy: An interview with Gustavo Romero Kolbeck, Governor of the Bank of Mexico


URSULA BERNATH

Romero Kolbeck: "The growth of private investment over the last four years in Mexico could be the envy of many industrialized countries."

The relationship between the Central Bank and the administration in Mexico is very different from corresponding relationships in most industrialized countries. What are the advantages, and the disadvantages, of your system?

The Swiss is the most independent of central banks, followed by the Bundesbank, then the Bank of England and then the U.S. Fed. Obviously, from that viewpoint, we come later on the list. Here, there is a close coordination between the Central Bank and the government: we always accommodate our policy to the relevant policy of the government, and we think that's an important advantage.

In the eyes of people in other systems this may not be ideal, but we think it's beneficial that we're working on the same track. The Minister of Finance is not just the chairman of our board, he also has veto power over the Bank's major policy decisions. In point of fact, however, in our whole history, that veto power has never been exercised, directly or indirectly.

But aren't there disadvantages, too?

I don't see any serious disadvantages. If we favor one policy and the Ministry of Finance favors a slightly different policy, we work together to arrive at a solution that is best for the country as a whole rather than a solution that suits the Central Bank or any other government body.

Suppose, though, that you became extremely perturbed about an acceleration of inflation in Mexico, and yet the objectives of the government made a continuation of growth appear absolutely necessary. What would you do?

In a developed country, you can allow yourself the luxury of a [deliberately-induced] recession. But in Mexico a recession means a lot of people don't get food, so to follow a policy of deliberate recession is very difficult.

The creation of growth and employment is a different priority here than in the developed countries. It's an objective for us in the Central Bank just as it is for the government. In most developed countries, the head of the Central Bank does not attend the meetings of the country's economic cabinet. Here, the head of the Central Bank is a member of that inner cabinet. I know everything that's going on in the economy, and I also can present my views directly to the President.

The peso has stood up extremely well against the dollar, by comparison with other so-called strong currencies, despite your inflation rate of nearly 30 percent. What's the secret?

We've been allowing an adjustment over time, letting the peso go down slowly, while maintaining an interest rate differential. So far this year, the rate of devaluation has been 11.8 percent.

What other measures are you considering to prevent any more drastic drop?

We would absorb any major fluctuations by using our reserves to supply any excessive demand for dollars. But we haven't had any need for such interventions.

According to recent tabulations by the Bank for International Settlements, Mexico is now the number 1 borrower in international markets. If you put yourself in the position of an international lender, are there any circumstances that would cause you to lose sleep?

First, we're not new in the international markets. We've been in them for 40 years. We've been providing excellent opportunities for international bankers–we've been among their best clients.

Second, they've been obtaining excellent results from their financings in Mexico. We've maintained a great record.

Third, and some bankers see this as an important factor, we're not a one-product country, although we now have a high production of oil. We also export many foodstuffs, particularly fruits and vegetables; we're among the world's leading producers of three or four mining products, particularly silver; we've been creating a broad infrastructure for tourism.

Fourth, while our industry may not be as big as that of some of the big industrialized countries, it is growing dynamically.

We've got a very high rate of investment: the growth of private investment over the last four years in Mexico could be the envy of many industrialized countries that have had none.

Finally, we have a labor force available and quick to train–so it can respond to our growth and development.

On this point, some foreign bankers see the decline of the birthrate in Mexico as among the most promising economic developments of recent years. What are the implications?

It makes the whole situation more manageable. Even though in the last four or five years we have been creating more jobs than the increase of the labor force, the decline of the birthrate is important because no country could keep on and on with net job creation if its population kept growing at the rate ours did. Without this tremendous pressure from population growth we will be in a much stronger economic situation.

Suppose there were a deterioration in the world economic situation. Wouldn't the size of your borrowings then become cause for alarm?

Of course, we'd like to see the world economy growing again, but we've proved we can get ahead even if it doesn't–and if it *is* in a no-advance situation, it brings us certain advantages, such as the tremendous amount of liquidity that results in the international markets.

Putting in focus the size of our foreign debt, one year of our oil exports, at $14 billion, is equal to 35 percent to 40 percent of what we owe. So in extreme circumstances we could forbid imports of everything that wasn't absolutely essential and just use the proceeds of our sales to pay off our foreign debts.

It's also very important [in regard to the debt question] that our change of government is going to be tremendously smooth. There won't be any turbulence. The person who has been selected as candidate of the official party is well-known for his intelligence and for his command of economic and financial matters. He is also very well-known in the financial, banking and business centers of the world.

Do you expect his economic plans to follow pretty closely the line of the present plan?

Of course, this will be up to him. But, since he is the person who elaborated this present plan, I think there will be a very close connection. ♦

A silver mine at Taxco. Mexico is the world's leading supplier of silver, and among the five leading producers of sulfur, lead, zinc, mercury and half a dozen other minerals.

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Financing a mixed economy

In the *economía mixta* of Mexico today, it's difficult for foreign investors to define where the public sector's responsibilities end and the opportunities of the private sector begin. Mexicans say, though, that this shouldn't puzzle foreigners. It's difficult for them, too. One of the problems in his country, says Víctor Manuel Herrera of the Mexican Banker's Association, is that the definition "is not clear enough."

"However," he adds with a smile, "it's certainly clearer here than it is in most other countries." For instance, he says–as do other private sector bankers–that he sees Nafinsa, the government development bank, as more of a collaborator than a competitor. Top civil servants *work* with the private sector rather than, as in many countries, against it. And the system works. Rubén Aguilar, the senior executive at Banamex, sums up the situation: "Both sectors have the same basic objective, to try to find formulas to resolve the problems of Mexico." The work of the government development bank, he says, "complements" what the private banks are doing.

The fact that the marriage of public and private sectors works doesn't make anyone pretend that it's idyllic. As is the case in many other countries, the Bank of Mexico lays down what interest rates the private banks can pay on savings, issues government paper to support the financial system, and establishes reserve requirements on the savings they do get. "Questions like these lead to differences of opinion between the Bank of Mexico and the private banks," says the Central Bank's Deputy General Director, Miguel Mancera, a little wryly. But both sides understand each other's views, he adds–and, anyway, "every banker in the world would prefer not to be subjected to reserve requirements or to compete with government paper."

At the same time, institutions like Nafinsa (assets approaching \$20 billion) complement the private banking giants like Bancomer and Banamex (each with assets of well over \$16 billion, and among the top 25 banks in the Western Hemisphere), in furthering the development of all areas of the economy. The two sectors, while providing alternatives for the public's savings, play different roles in that development. What Nafinsa does, private bankers agree, is provide indispensable financing for areas that have to be developed if the country is to have a sound infrastructure, and if its economy is to be balanced–but on which the payout may be very long-term.

Encouragingly, this is the way the development bank itself (which is 51 percent owned by the state, with the rest of its stock owned by some 3,000 individuals and institutions) sees its objectives. Alfonso García Macías who, though only 41, is one of three deputy directors-general of the huge institution, says its first role is to "promote key basic industries–such as iron and steel, energy production, heavy chemicals and capital goods, which are necessary to the balance of industrial development, but which do not necessarily have high profitability." Another key part of this role, he says, is to support the development of smaller and medium-sized companies, and to advance the decentralization of Mexican industry, by helping in the establishment of new developing areas such as industrial parks and ports. Summing up this side of his agency's job, he says, "it is to fill the holes into which private investors are not able to go."

In García Macías' opinion, the concept refutes any suggestion that Nafinsa, in this role, competes with the private sector.

PHOTOS BY URSULA BERNATH

Alfonso García Macías, Nacional Financiera (Nafinsa), says his bank's role "is to fill the holes into which private investors are not able to go."

Víctor Manuel Herrera, The Bankers' Association, commenting on Mexico's controlled float of the peso: "We're happy with the mini-devaluations."

Rubén Aguilar, of Banco Nacional de Mexico, S.A. (Banamex): "The local auto market is doing much better than that of the U.S."

Carlos Abedrop, Banco del Atlantico, says that Nafinsa makes it possible for "companies to come into Mexico and manufacture such products as turbines, steel and tractors."

"The commercial banks can place their funds wherever they like," he says, "whereas we have to place ours in accordance with the Plan." In general, private sector bankers don't disagree: "Nafinsa has a distinct mission," says Aguilar.

Providing capital for industrial development

A reading of Nafinsa's annual report, and a quick study of the kind of industrial financing in which it specializes, reveals why it might well be difficult for private capital to do the job earmarked in Mexico for Nafinsa. The industries are basic indeed: iron and steel and cement, for instance, transportation and fertilizer. Macías says Nafinsa holds 92.6 percent of the stock in the country's largest steel company, Altos Hornos de Mexico. The public sector as a whole is the majority stockholder in the next two companies, and Nafinsa owns 9 percent to 12 percent of each of them.

For industries like this–"of long maturity," as García Macías terms them–it is difficult to get equity capital almost anywhere these days. Capital in any developing country is, almost by definition, difficult to come by, and Mexicans say Mexico is no exception. Carlos Abedrop of Banco del Atlantico says one of Nafinsa's most valuable contributions to Mexico's development comes through its participation in industrial projects in which foreigners are willing to take a share, and for which there simply isn't the necessary domestic risk capital available. "Foreign companies want to come into Mexico and develop the manufacture of such products as turbines, stainless steel and tractors," he says. Before they can do so, Mexican law makes it necessary for local interests to put up 51 percent of the total equity capital. It's often not possible to raise this from private sources, Abedrop observes, "so Nafinsa comes in."

One example of the way the system works is the new industrial group NKS, organized at the end of 1979 to handle casting, forging, the manufacture of boilermaking equipment and the assembly of very large pieces of machinery–thus providing services that otherwise do not exist in Mexico. Partners in the venture are Nafinsa, the Mexican steel firm Sidermex and Japan's Kobe Steel. Initial equity capital is of the order of $100 million, of which Nafinsa and Sidermex each take 33.3 percent, while a partnership between Kobe Steel and the Japanese government holds the rest.

Abedrop says another key contribution of Nafinsa is to the development of Mexico's capital markets. While these are still small relative to those of the U.S. or Japan, they are growing. For example, total equity and money market turnover in 1981 was estimated at $4.5 billion, up close to 50 percent from $2.9 billion in 1980. One out-of-the-ordinary Nafinsa activity in this area is to act as a market stabilizer. One of its basic objectives, according to its latest annual report, is to "support the stock quotations of basic companies." In 1979, says Herrera of the Bankers' Association, when the Mexican stock market boomed, there was a lot of uninformed buying–followed by a considerable amount of equally uninformed selling when the market fell back again. Nafinsa reports that, through its Stock Market Support Fund, it operated against the market trend: "the fund bought when prices were falling, to give liquidity . . . and sold in periods of strong upward pressure, as a means of counteracting purely speculative increases."

Raising capital around the globe

Nafinsa's other primary role, however, is to raise money. As García Macías says, "we act as financial agents of the Federal Government," providing purchasers of Mexican paper with an alternative to that of Mexico itself in much the same way that a government-backed U.S. agency, such as the Export-Import Bank or the Government National Mortgage Association, provides an alternative to the paper of the U.S. itself. Francisco Suárez Dávila, 38, a Cambridge University-trained director of Nafinsa, notes that the institution is the world's largest borrower from the Inter-American Development Bank and the International Bank for Reconstruction and Development. And at the short end of the market, he observes with some satisfaction, it's also a highly successful borrower–getting an A1-plus rating from Standard & Poor's when the latter recently revamped its commercial paper classifications, and enjoying 15-20 basis points better terms than some state entities backed by the government of France.

Despite such overseas successes, Nafinsa wants to increase the proportion of funds it gets from domestic sources. Some 45 percent of its total funding is now domestic, up from 32 percent in 1979. Naturally, this puts Nafinsa in competition with private domestic institutions, but "we accept Nafinsa's presence as a national necessity," says Herrera.

Notwithstanding the high interest rates they must pay for savings–in order to provide the public with a positive return above the inflation rate–and the regulatory inhibitions they work under, the private banks in Mexico are doing fine. Banamex' Aguilar says the last twelve months have been "very satisfactory"–with deposits in the banking system growing faster, in real terms, than GDP, assets growing in line with deposits, and profits rising more rapidly than the inflation rate.

Perhaps the fact that the banks are doing so well is as good a proof as any that the mixed economy in Mexico is working. That the banking system can function at a profit when deposit interest rates are around 30 percent, and when peso reserve requirements are at 41 percent, is something of a tribute to the country's economic managers.

The tribute is particularly meaningful because the Mexicans adapted the system in the late 1970s in the anticipation that very high interest rates were coming, and that these rates would create difficulties for banks if they continued the specialization (as, for instance, savings banks or mortgage banking institutions) that was then their hallmark. Under López Portillo, the Central Bank and the Treasury encouraged a transformation of these specialized private banks into multiple, almost "universal" banks, acting as deposit, mortgage and long-term financing institutions. "We acted as matchmakers," says Mancera, who was one of the major forces in the move, and he adds that the Bank of Mexico is now encouraging further mergers, "to enable all credit institutions in the country to reach a certain minimum size –the size needed to get access to the economies of scale that can be derived from modern technology."

In comparison with the problems of the savings and loan industry in the U.S., or with those of the "fringe" banks in the U.K. in the mid-1970s, or with what is happening in France–where the government finds it necessary to bring more than 90 percent of deposits under state control–the Mexican management of the banking system looks reasonable. Indeed, Mexico's management of its mixed economy generally has been skilled and, to an admirable degree, successful. ♦

Financing industrial development: An interview with Jorge Espinosa de los Reyes, Director-General, Nacional Financiera

URSULA BERNATH

Espinosa de los Reyes: "We have equity participation in 87 companies, and in practically all of them there are also equity investors from the private sector."

Outside Mexico, few understand how Nafinsa meshes into the structure of the Mexican economy. What are your principal objectives?

We promote Mexico's industrial development by providing part of the financing in a number of basic sectors–iron and steel, chemicals and petrochemicals, transportation, mining, pulp and paper, capital goods, agroindustry and tourism. To obtain the development and growth of these sectors, we direct a great part of our efforts to small- and medium-sized companies–as well as, of course, to the large companies and industrial groups, because the small- and medium-sized companies provide 70 percent of Mexico's industrial development.

To fund this role of development bank, you've been switching a good deal of borrowing from foreign to domestic sources. What is the rationale?

There is a general national movement toward greater reliance on national and domestic resources, and our move toward greater reliance on domestic financing is part of it. In the last four years, the percentage of our funds coming from domestic savings has more than doubled.

Doesn't this bring you into head-to-head competition for funds with your private sector banks? And–since you have the backing of the government–do they regard this competition as fair?

In general, the private sector looks on our activities with understanding, because they recognize that a government development bank is a necessary feature of a mixed economy. Private bankers recognize that an important part of the savings we get are channeled to companies that help them develop new projects and programs in which the capital is wholly private.

Wouldn't the private sector banks prefer to be financing these companies themselves?

They also recognize that we provide funds and backing for the development of companies in regions and industries into which private banks just wouldn't want to go. We give priority to projects and programs that have high social priority but that are not necessarily very profitable. We run risks that private sector banks are not willing to take. So, within the overall economic framework of Mexico, we *complement* their efforts.

Do you give the private sector a chance to participate?

We *always* invite private investors to come in. We have equity participation in 87 companies, and in practically all of them there are also equity investors from the private sector. In a number of instances, it's the private investors who invite us into a company, to carry out an expansion or a new venture. The only sector in which we are sole stockholders is the fertilizer industry.

Is it fair to characterize your primary areas of interest as those of slow payout?

It's a basic national objective to reach a *balanced* economic growth, to improve the possibilities of developing all our country's different natural resources, to spread our growth throughout all our different regions and to prepare Mexico for a higher state of [industrial] development.

With this overall purpose, Nafinsa goes into a lot of areas in which the possibilities of full development would be limited if private investors were the only financial participants. However, we have to balance the way we employ our resources for national purposes with a use of these resources that is economically efficient; we also have to look out for the interests of our stockholders [Nafinsa is 49 percent publicly owned]. In our dividend policy we take into account the need to satisfy these private investors in our stock–which has been performing better than the stocks of some private institutions.

Despite the fact that you're aiming to increase the percentage of your funds raised domestically, you recently entered the U.S. commercial paper market. What was the thinking behind this move?

The main object is to diversify our foreign sources. We see this as a way to tap another large financial market that may be able to become a significant provider of funds to us at competitive cost. As we're operating soundly [Nafinsa has received top ratings from both Moody's and Standard & Poor's], we think this new source will expand. [The company started in April with a $200 million program, through A.G. Becker and Kuhn Loeb Lehman Brothers, and went to $300 million in November.]

If the world situation deteriorates, in economic terms, how will you be able to continue your development program?

We're not improvising our development; we've been preparing it for decades. If the world situation does not improve, certainly our problems will deepen. But when it does improve, we'll have the programs in place to get the benefits. ♦

The outlook: The problems are there—but so are the solutions

"If the world sinks into a depression, Mexico will have problems," says a leading French political economist. But, he adds with Cartesian logic, "who won't?"

Víctor Manuel Herrera of the Mexican Bankers' Association puts the world problem in Mexico's perspective: "If the world economy failed to grow for more than a year or two, it would be difficult–not only for us but for the world as a whole." The situation is already disastrous in most industrialized countries. In the U.S., near the end of 1981, unemployment was already running at 8 percent–the highest since the worrisome winter of 1975. In the European Community, it was already at its highest since figures were first compiled. In countries such as Belgium and France, social scientists worried about the ability of the social system to stand the strain. In Britain, last summer's riots made them worry that it was past the breaking point.

Meanwhile in Mexico, nobody is fooling himself that oil has made the economy immune. "We don't live on an island; we're integrated into the world," says Espinosa de los Reyes, head of Nafinsa, "and our present problems will deepen if the world situation does not improve."

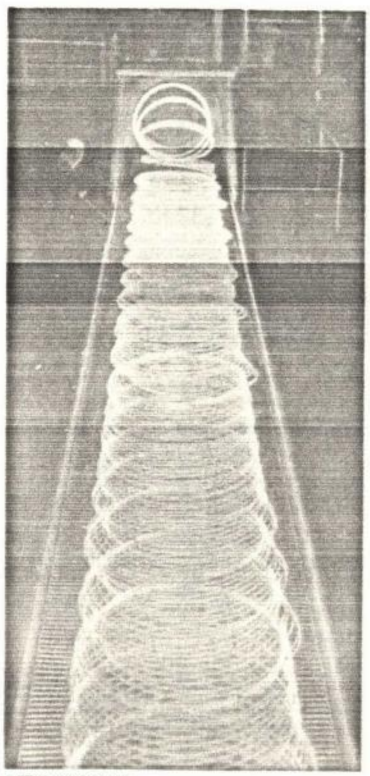
At the same time he points out that Mexico "is at a higher stage of development than many developing countries, and we're in a better position than most because of our progress in reaching a more diversified economy." He notes that a continuation of improvements in production will allow a reduction in food imports. In general, too, Mexico can fall back, he says, on "this very large domestic market, of which the purchasing power is growing very rapidly." Rubén Aguilar, a top executive at Banamex, gives an example of what this means in practice: "The local auto market is doing much better than that of the U.S., even though prices are high and interest rates very high."

All this augurs reasonably well for Mexico if the international situation stays sour, and very well for Mexico if it turns up. But Mexicans are extremely aware that, whatever happens in the rest of the world, they face plenty of problems. They're busy, at the moment, putting together possible solutions, and these will be incorporated into the next Global Development Plan, which is expected to cover the full 1982-1988 administration of the next president of Mexico.

Continuing a moderate course

Nobody knows yet what the plan will be. It's the product of a prolonged process of consultation, says the Finance Ministry's Gurría, between the candidate, de la Madrid, and all the people whom he addresses and with whom he consults; this during the long vote-getting campaign in which, despite the near-certainty of the result, he is engaged. However, most authorities are pretty confident of some of the broad lines the plan will follow. "There are two main schools of thought in Mexican macro-policy," says Fernando Arias, an economist at the Bank of America. One is conservationist (as far as oil is concerned), and one expansionary, "but both aim at this same goal of maximization of employment."

The steel ingots being produced at this recently completed facility in Puebla are the result of a development drive that has doubled the capacity of Mexico's steel industry in recent years.



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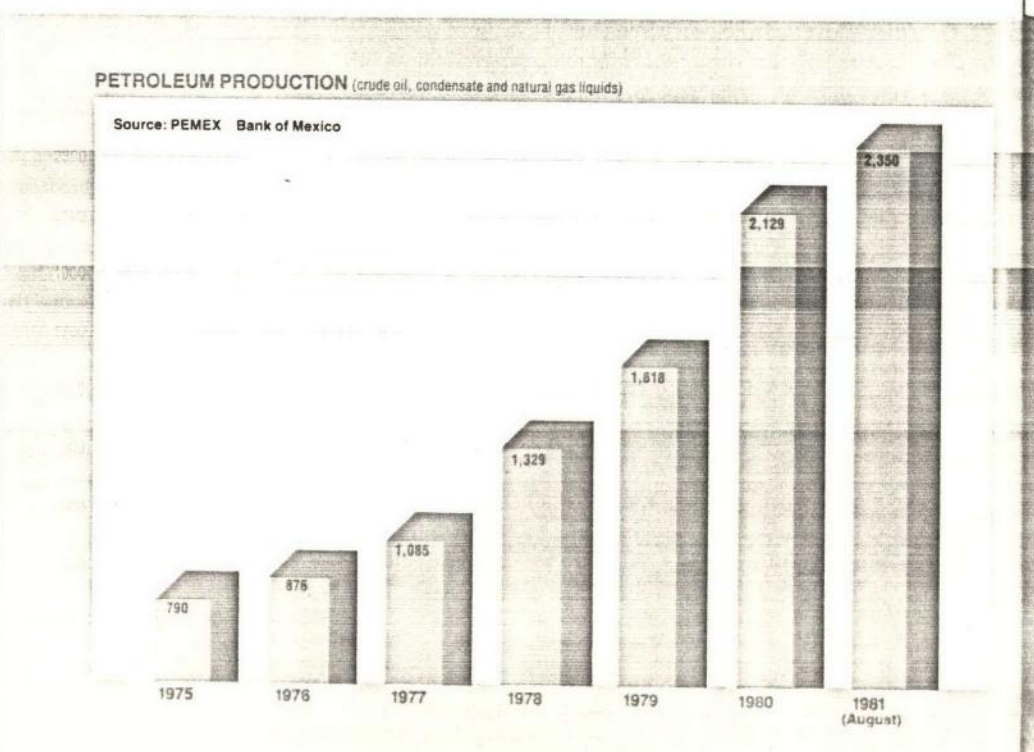


Arias characterizes de la Madrid as "extremely responsible, and very knowledgeable about the problems of fast economic growth," and believes he will steer a middle course. "The candidate," says one international financier, "breeds confidence in the breasts of bankers the world over."

A middle course should sit extremely well with various sectors, including business people such as Carlos Abedrop of the Banco del Atlantico, who feel Mexico's GDP has been rising too fast. "The addition of demand has been too great for the productive capacity of the economy," he says. Silva-Herzog thinks "we would be in a situation where we would get more sustainable growth if we were to grow at a slightly lower rate than that of the last three or four years." Leopoldo Solís of the Bank of Mexico believes growth is already slowing, and that the impact of demand on the economy is being cushioned, partly because of the mid-1981 cutback in the budget, partly because public sector spending was coming down anyway. "I look for real GDP growth in 1982 and 1983 to be lower than what we have been getting"–"on the order of 6 percent, against around 8 percent." Without the budget cutback, he'd have expected 6½ percent real growth in each of the next two years.

Solís says the easing off of the expansion of public spending and investment will have significant effects in reducing inflation. At the same time, some of the investment will pay off in greater productivity, thus alleviating some of the inflation it has already created.

Lower inflation, higher employment

One way and another, Mexico's inflation should be coming down near the 20 percent level in 1982. But will there be another trade-off from the slower growth, in terms of a slowdown in job creation? Can Mexico continue to create enough jobs? Bank of Mexico Governor Romero Kolbeck says frankly that "it will take many years" to solve his country's employment problems: "we can't absorb all those who are underemployed except over time, and we can't keep those previous 8 percent rates of development constant." However, he is confident–as are other economists such as Arias, outside Mexico as well as in–that the problem is under *control*. One way Romero Kolbeck sees of alleviating it is by channeling resources to those sectors–agriculture and smaller industrial companies–in which there is a low coefficient of investment per job created.

Solís, the Central Bank's chief economic theoretician, says that "at 6 percent, GDP growth will keep job creation high enough to absorb the increase in the labor force–and a little more." And he says training programs instituted under López Portillo will be helping to get rid of some of the manpower bottlenecks in the economy, and at the same time put more people in higher level jobs. The programs are designed to turn out badly-needed mechanics, tractor drivers, carpenters, electricians–"all sorts of technicians."

Decentralization as a continuing policy

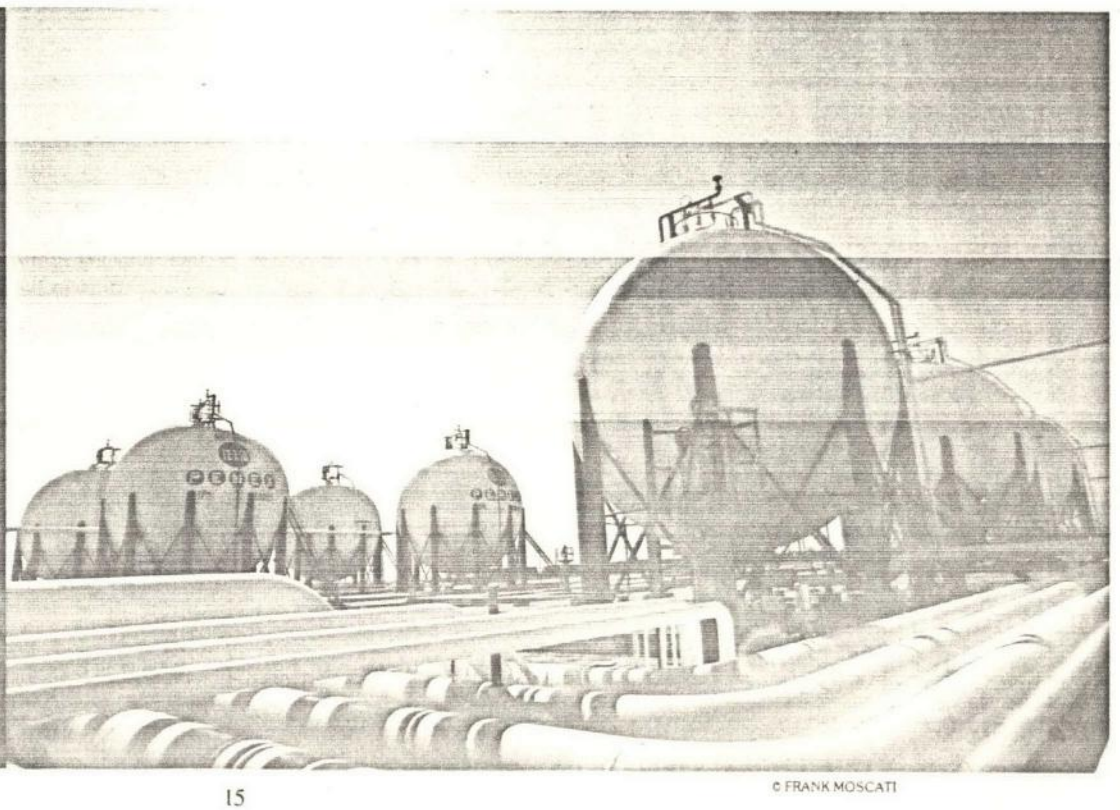
One of the most worrisome bottlenecks, officials say, has been the tendency of industry and labor to concentrate geographically. Finance Minister David Ibarra Muñoz says decentralization is a major goal of Mexico's government; it is giving numerous and substantial incentives to industry to locate or relocate outside the valley of Mexico City.

In a dramatic demonstration of the way this move is underway, Banamex will by 1984 relocate its strategic headquarters in Queretaro, more than 100 miles from the capital. Nafinsa has also decentralized itself, by acquiring Banco Internacional, which has 400 dispersed offices, and by a conscious effort to

Antonio Enríquez Savignac, Petroleos Mexicanos (Pemex): "Many of our problems are problems most companies would love to suffer from."

URSULA BERNATH

Oil storage facilities of Petroleos Mexicanos (Pemex), now produce almost three million barrels of crude oil a day. Mexico ranks fourth in the world in both current production and proven reserves.



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bring in more funds through outlying branches. And it is playing a key part in getting industry decentralized, by helping in the establishment of companies such as NKS in the country's new industrial ports–Lazaro Cardenas, Salina Cruz, Altamira and Laguna del Ostion.

Nafinsa director Suárez Dávila says the development of these ports (the first two on the Pacific, the others on the Gulf) has been a key initiative of President López Portillo. One part of the rationale is to get industry away from the central highland plateau and nearer the sea, where logistics are more favorable and an export orientation more natural. Another is to get increased symbiosis between the private and public sector industries. This is happening, for instance, says Suárez, at Altamira, which is near Monterrey: "All the big private sector groups–Alfa, Hylsa and Visa, for example–which have important operations in Monterrey, will be setting up plants in Altamira."

Laguna del Ostion and Salina Cruz will play important parts in the widening of what has been, occasionally, a bottleneck costly to Mexico's economy: the loading of export oil. Just as bad weather in the Persian Gulf has frequently delayed and sometimes halted loadings of Saudi and Iranian crude, storms in the Gulf of Campeche have held up shipments from Mexico. According to the prospectus of a recent bond sale, Pemex lost more than $500 million of contracted oil exports in 1980 because of this problem.

The meteoric rise of Pemex

Pemex officials are quick to point out, though, that press reports of this and other Mexican oil problems normally overlook two key considerations. One is that, with the investments that have been made, particularly in Campeche, the loading difficulty is coming under control. The other is that this and other difficulties are the penalties of a rate of development that has been, in the truest sense of the word, extraordinary. Of the four "super-giant" oilfields that have been discovered in the world in the last ten years, one is on the North Slope and the other three are in (or in the territorial waters of) Mexico. Pemex has grown from a substantial company, with sales of around $3 billion at the beginning of López Portillo's administration, to one of the biggest businesses in the world. With 1982 anticipated sales worth, at today's prices, around $25 billion, it will be one of the dozen or so largest businesses–about as big as General Electric, and substantially bigger than Shell Oil.

MAJOR PETROLEUM EXPORT MARKETS (Thousands of Dollars)

	1978	1979	1980*	1981**
Brazil	7,669	30,589	153,030	—
France	—	7,128	276,616	—
Israel	106,438	301,663	419,387	—
Japan	4,592	—	123,443	—
Spain	72,862	348,777	675,299	—
United States	1,595,428	3,195,408	4,514,978	—
Other	50,204	103,003	259,304	—
Total	1,837,193	3,986,568	6,422,057	13,807,000

Source: PEMEX *Through Aug. 31, 1981 **Projected for year ended Dec. 31, 1981

"Many of our problems are problems most companies would love to suffer from," says Antonio Enríquez Savignac, deputy finance director of Pemex, who notes that his company presently has to keep control of 1,577 "significant-sized" projects, costing around $20 billion (of which some $4 billion will be spent in 1982). One example of Pemex' success is its reduction in the percentage of its natural gas production that is flared away: from 24 percent in 1976 to less than 1 percent today–the lowest percentage economically feasible–on land operations, and, says Enríquez, Pemex is installing huge compressors that will bring the percentage flared offshore down to the same level early in 1982. Much of the gas is now becoming petrochemical feedstock.

"As a medium- and long-term goal," says Enríquez, Pemex is aiming to complement the export of crude with that of finished products–adding value and creating jobs within Mexico. With this in view, the company is in the process of constructing one major new refining complex and doubling the capacity of three existing ones, as well as building no fewer than 51 new petrochemical plants. "When you look at the time it takes just to *design* a plant like La Cangrejera," a monster that will be among the world's largest petrochemical producers, "it is a terrific technical achievement to get it three-quarters completed in four years or so." But this is what the Mexicans have done: La Cangrejera is already producing, and it will be fully operational in 1982.

Another major Pemex goal, Enríquez notes, is to increase government-to-government deals: "What Mexico is looking for is to make our sale of oil part of an overall economic relationship with a given country." Mexico's dealings with Japan, to which it now sells 100,000 barrels a day, demonstrate what he's driving at. A visitor looking around Mexico City's top hotels today has the impression that there are as many Oriental as Western business visitors, and President López Portillo noted in November that a 131-man Japanese trade delegation was the first mission to come to Mexico to buy and not to sell. Herrera says the Japanese have shown themselves to be "excellent partners–they're highly reliable, and they look for permanent rather than temporary relationships." And Nafinsa's Suárez notes that "there's a great deal of complementarity between the two nations: they get from us oil and a range of basic goods, from cotton and fruits to the big salt deposits in Baja California, plus products that have input such as petrochemicals." In return, he adds, Mexico gets two valuables that will help solve many of its problems–Japanese investment and technology.

Of course, as Ibarra Muñoz notes, Mexico's major trading partner will, for the conceivable future, continue to be the U.S. But Mexico's increasing trade with Japan illustrates its efforts to diversify in every sense–in the direction of its trade, in the funding of its debt, in the broadening of its industrial base. Mexico is determined to take advantage of its blessing of oil, but it is equally determined to grow, even if oil ceases to be the bonanza it has been in the 1970s.

"We're not an oil economy, we're an economy with oil," is the way Romero Kolbeck puts it. Mexico's oil shock this summer may turn out to have been a blessing in disguise, because it demonstrated and continues to demonstrate that, with or without a continual boom in oil prices, Mexico can make it. ♦

© FRANK MOSCATI

A Hylsa steel mill in Monterrey. Installed capacity of the country's steel industry is now 10 million tons and the 1982 objective is 14 million tons — a reflection of Mexico's massive industrialization effort.

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen (Through: Mr. Ernest Stern) ES   DATE: February 10, 1982

FROM: Nicolás Ardito Barletta NB

SUBJECT: My Recent Trip to Mexico

2-18-82

While in Mexico, I had very useful conversations with President Lopez Portillo, Mr. David Ibarra, Secretary of Finance and Public Credit, Mr. Francisco Merino Rabago, Secretary of Agriculture and Water Resources, and Mr. Gustavo Romero Kolbeck, Director, Banco de Mexico.

President Lopez Portillo sends you his best regards and is looking forward to your visit to Mexico in early March. I congratulated him on recent difficult decisions on economic policy, such as accelerating the crawling peg of the peso from 13 to 20% per year; increasing domestic fuel prices, interest rates, and prices of other public goods; as well as the restraints established by reducing money supply and the public sector investment program. He acknowledged he would have preferred not to have to take such actions in his final year but accepted that they are necessary for the well-being of the Mexican economy.

Mr. Romero Kolbeck provided more details on the decisions they are making in this political year such as the desirability of accelerating somewhat more the crawling depreciation of the peso and of accelerating slowly the pace of subsidy reductions; and the ongoing struggle to reduce public sector investment and hold the line on the approved level of the 1982 budget. Both the Secretary of Finance and the Banco of Mexico estimate that the economy will slow down this year as a result of those actions and other circumstances and such effect will help to slow down inflation and reduce the balance of payments deficit.

As you know, inflation was about 28% per annum in 1981 and the balance of trade deficit increased significantly requiring larger than anticipated external borrowings by Mexico. Several international banks and investors (including ourselves), as well as Mexicans had expressed concern at such a turn of events, and Mexican authorities realized they could no longer ignore the overvaluation of the peso and the inflationary impact of very large fiscal deficits due in part to a) an ambitious investment program and b) extremely generous subsidies of all kinds. The Mexican authorities began implementing policy actions last July (i.e. the crawling peg, 4% reduction in 1981 current expenditures) and have increased such actions with the measures referred to above. They need to be encouraged to continue taking such smoothed-out actions to avoid political problems but also to correct the potentially serious economic imbalances. More of this in the briefings for your trip.

Secretary Ibarra was specially concerned about recent World Bank policies, which he considers not favorable to Latin American countries. He was friendly but very direct in his comments, given our long standing personal friendship. He commented that the recently approved graduation policy, the planned reduced level of lending to the Latin American region, the higher effective interest rates and front-end fees and the turning down of the chairmanship of the Central American Development Group were consecutive actions that raised questions in Mexico, as well as other Latin American countries, concerning the attitude of the Bank towards the region. I think he feels especial responsibility and concern about those issues as chairman of the Development Committee. Obviously, I explained with our Bank reasoning that those actions are not meant to reduce Bank support for Latin American development and that each one of them has its own independent rationale given the difficult present circumstances for the Bank. I also urged him that some of these issues, such as graduation and total level of lending, should be discussed by Latin American Governors and their ED's directly with their colleagues from Part I countries. It is very likely that he and perhaps even President Lopez Portillo may raise those issues with you.

I thought these matters were sufficiently important to inform you immediately of the results of my conversations in Mexico.

Otherwise, the Mexicans have been very pleased with the recent levels of lending to Mexico, as well as with the composition of such lending and with the economic studies that the Bank is making to maintain a strong technical dialogue with them.

NArditoBarletta:cf

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1982 FEB 11 PM 12: 01

OFFICE OF THE PRESIDENT

MISION DEL BANCO MUNDIAL

Guadalajara, Jal.

Marzo 1982

1. Nombre de la empresa MODULOFABRIL, S.A.
2. Municipio GUADALAJARA, JALISCO Zona II
3. Productos que fabrica CIERRE MAGNETICO, PASADOR DE MUEBLE, RES-BALON DE MUEBLE Y OTROS PRODUCTOS VARIOS.
4. Principales socios SR. JAVIER PALACIO LANDA, YOLANDA HASSON DE PALACIO, JESUS SORIA, JULIETA RUIZ DE SORIA Y SRA. TERESA VER GES DE PALACIO.
5. Estructuras del capital social 100% Mexicano ___% Extranjero

   País ______
6. Inversión total (activo total) $12'326,000.00
7. Superficie de terreno ocupada 1,000m² Superficie construída 1,000m²
8. Personal ocupado 67
9. Origen de las materias primas 90% NACIONAL

   5% BRASIL

   5% INGLATERRA
10. Mercado

    Principales Ciudades TODA LA REPUBLICA MEXICANA

    Exportan sus productos ___ SI X NO

    ¿A dónde? ______

    ¿Qué porcentaje representa? ___%

    Monto de ventas anuales $ 5'454,000.00
11. Capacidad de producción instalada / mes o día 303,500 PIEZAS

    Utilizada 248,000 PIEZAS
12. Origen de la maquinaria y equipo SUIZA, ARGENTINA, BRASIL
13. Apoyos recibidos del PAI

    X Crédito FOGAIN monto $7'950,000.00 Destino FABRICACION VARIOS

    ___ Capital FOMIN monto ______ % del Capital social ______

    ___ Crédito FIDEIN monto ______ Objeto ______

    ___ Crédito FONEP monto ______ Objeto ______
14. Inversiones previstas al futuro:

    Año 1982 Monto $6'000,000.00

file

March 18, 1982

Dear Chucho:

Thanks so much for your note and for leaving the photo albums. The pictures are great and will be fine mementos of our enjoyable visit to Mexico.

By now you have my wire and again let me tell you how delighted all of us are that you have received such high---and well-deserved---regognition by your Government.

Peggy joins me in congratulating you and in wishing you the very best in the years to come. We look forward to seeing you again soon.

Sincerely,

(Signed) A. W. Clausen

His Excellency Jesus Silva Herzog
Secretary of Finance and Public Credit
Palacio Nacional
Mexico City 1, D.F., Mexico

HH:bli

(11-78)

WORLD BANK OUTGOING MESSAGE FORM (Telegram)

IMPORTANT (PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM.)

File

Class of Service: TELEX

Date: MARCH 16, 1982

Telex No.:

Originators Ext: 72543

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START
1 HERE TO MR. JESUS SILVA HERZOG, SECRETARIO, SECRETARIA DE HACIENDA Y

CITY/COUNTRY CREDITO PUBLICO, PALACIO NACIONAL, MEXICO 1, D.F., MEXICO

MESSAGE NO MY HEARTIEST CONGRATULATIONS ON YOUR NEW OFFICE. CHUCHO, YOU SUCCEED AN EMINENT PREDECESSOR DURING A MOST CHALLENGING PERIOD OF YOUR COUNTRY'S HISTORY. YOUR MANY FRIENDS IN THE BANK JOIN ME IN WISHING YOU ALL SUCCESS IN YOUR NEW RESPONSIBILITIES.

WARM REGARDS, A. W. CLAUSEN, PRESIDENT, INTBAFRAD

END OF TEXT

NOT TO BE TRANSMITTED

SUBJECT:	DRAFTED BY: DDutt:ak DD
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): A.W. Clausen, President
	DEPARTMENT:
	SECTION BELOW FOR USE OF CABLE SECTION
	CHECKED FOR DISPATCH

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: 3/1/82

NAME	ROOM NO.
A.W.Clausen	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
XXX	INFORMATION		RECOMMENDATION
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	NOTE AND FILE		**URGENT**

REMARKS:

Some final reading, if you get a moment, for your forthcoming trip... Alan Riding is the excellent N.Y.Times correspondent in Mexico.

FROM:	ROOM NO.:	EXTENSION:
F.Vogl FV	E828	72468

Mexican bid for El Salvador role as U.S. isolation grows

BY WILLIAM CHISLETT IN MEXICO CITY AND DAVID TONGE IN LONDON

MEXICO has warned the U.S. that military intervention in Central America would be a "gigantic" historical error, and offered itself as an intermediary to promote negotiations on the fast-deteriorating situation in the region.

Sr Jose Lopez Portillo, the Mexican President, told a rally of 50,000 in Managua, the capital of Sandinista-led Nicaragua, that Mexico wished to bring peace to El Salvador, where a bloody civil war has killed over 30,000 people.

He repeated his call for a negotiated end to the fighting between the Washington-backed civilian-military junta and left-wing rebels, adding that El Salvador presented no threat to the U.S.

Sr Lopez Portillo's speech was Mexico's strongest challenge to U.S. policy in Central America since last summer, when it joined with the new Socialist administration in France in recognising the guerrillas of the Farabundo Marti Liberation Front as a "legitimate representative" of the Salvadorean people.

The Mexico challenge comes at a time when Washington is desperately trying to shore up the Salvadorean junta, which is losing ground to the rebels both militarily and politically ahead of the elections it has called for March 28.

These elections have become the key element in U.S. efforts to find a political solution to El Salvador's problems. But despite a year's intense diplomatic pressure, the Reagan Administration has failed to win the backing of its Western allies for the elections and for its policy of refusing to negotiate with the guerrillas, who now control an estimated quarter of the country.

Yesterday, Belgium joined Denmark, Greece, the Netherlands, West Germany and Canada in refusing to send observers to the elections. France was apparently not even approached, following its joint declaration with Mexico last year.

Britain is at present the main Western country which has announced that it will send observers, at the head of a list which so far includes Colombia, Costa Rica, Uruguay, Egypt, and a three-man delegation representing the Organisation of American States.

The British Foreign Office takes the view that the elections are important in themselves, and, more important, that U.S.-European relations should not be strained over this issue.

Political groupings of the Salvadorean Left and Centre are not participating in the elections, which have been denounced as a farce by leading Salvadorean moderates such as Col. Adolfo Arnaldo Majano – one of the leaders of the junta which seized power in October 1979 until he was forced out by the extreme Right.

William Chislett in Mexico City finds an uneasy calm after last week's peso devaluatio

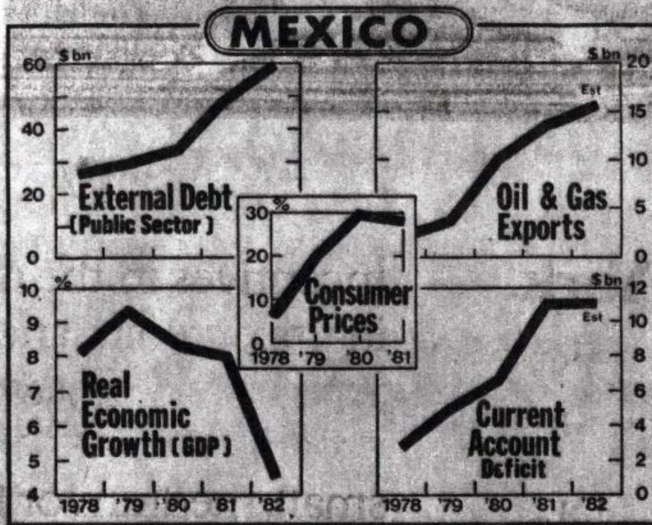
Lopez Portillo plays for high economic stakes

MEXICO IS deceptively calm following last week's devaluation of the peso, carried out in an attempt to avert a major economic crisis. But it is the kind of uneasy calm which comes before a storm.

The only outward sign that something dramatic has happened is that Mexicans are stocking up their larders in preparation for a surge in prices. Many families spent last weekend hunting out imported consumer goods, like whisky and electrical appliances, to beat price rises. Some supermarkets have withdrawn imported items, and sales of cars and homes have been suspended until the peso stabilises.

There has been no panic-stricken run on the banks, as happened in 1976 when the peso was devalued by 40 per cent. On Monday banks continued to trade the peso in the 37-38 to the dollar range, a 30 per cent drop since the currency was floated. The country's inflation rate is expected to rise sharply, however — and it had already been estimated at about 30 per cent this year, after 28 per cent in 1981.

The devaluation has been in he offing since Mexico had to educe sharply the price of its il exports last June, losing ibn (£3.2bn) in oil revenues as result.



The price cut caused a loss of confidence and sparked off capital outflows. But the Government continued to live beyond its means and pushed up its external debt by $14bn over the year to $48.7bn at the end of 1981. Most of this debt was contracted after the oil price reductions.

President Jose Lopez Portillo repeatedly said last year that he would "defend the peso like a dog." He appealed to Mexicans to have faith in their country and not to take out their money.

Mexicans, therefore, realised that a devaluation was possible, which may explain the feeling of calm. Sr Lopez Portillo's defence collapsed last week when it became clear that the country's reserves, which totalled $10.3bn last August 31 (the last official figure) were rapidly dwindling.

Capital outflows are estimated at between $2bn and $3bn over the past two months alone. The Government was therefore forced into propping up its reserves and sustaining an artificially high exchange rate with expensive short-term borrowings.

The Mexican economy, which for the past four years has grown rapidly, assisted by oil revenues, is now going to have to make some very difficult adjustments—made more difficult by the fact that there is an election this year.

Under the Government's programme of political reform, the Left is challenging for the first time the Institutional Revolutionary Party (PRI), which has ruled Mexico for the past 52 years. The Communists have been quick to denounce the devaluation and will try to capitalise on any resulting discontent.

Whether the devaluation averts or brings on a major economic crisis depends on the Government's success in enforcing the additional austerity measures which it introduced last weekend. These ruled out an across-the-board emergency wage increase and proposed a 3 per cent cut in the Pesos 328bn (about $4.6bn) budget.

The stakes are higher than they were in 1976. The high growth since then has greatly raised expectations which will clearly have to be reduced.

This year, gross domestic product (GDP) is expected to grow by about 4.5 per cent, some 3 points less than 1981. This means that the 800,000 new jobs needed because of the rapid increase in population will not be created.

The economy went into recession in 1977 after the last devaluation without too much strain. It was cushioned by the advent of oil. But the present world oil glut means that Mexico, the fourth largest producer, cannot pump its way out of the crisis as it did five years ago by turning up the oil valves. The economy is already dependent on oil for 75 per cent of its exports and is structurally imbalanced and over-heated. For these reasons, the private sector will be cutting back on investment. Companies with high dollar debts are in a delicate position.

Public-sector expenditure will also have to be sharply pruned, probably by more than the 3 per cent announced so far, to cool the economy.

The Central Bank's annual report, due this Thursday, will probably announce that last year's public-sector deficit was a massive 13-15 per cent of GDP—nearly double the target. This year's goal is 8 per cent.

The Government will come under pressure from the private sector to ease price controls and from trade unions to grant higher wages. Businessmen and workers think in dollar terms since the Mexican economy is so closely tied to the U.S.

Trade union leaders have already begun to make noises in this direction. They may call, as they successfully did in 1976, for an extraordinary increase in the minimum wage.

A war against the trade unions and the private sector over wages and prices would be disastrous for Mexico. The Government's energies will be severely taxed over the next few weeks in preventing battle lines from being drawn up.

[redacted]

Outline/Derek Hudson (top); Gamma-Liaison/Dave Healey

Salvador find refuge in a volunteer-sponsored camp (top); a day laborer struggles with a load of produce in Haiti.

Caribbeans Weigh New Offer Against Experience

By ALAN RIDING

MEXICO CITY

AFTER months of delay and soul-searching, President Reagan last week unveiled his plan to promote economic development and fight Communism in the Caribbean basin. It was new, he said. Instead of the "good neighbor" policies of the past, Washington would be "a true friend and brother" to the region.

But to Latin Americans in the Washington audience and south of the border, including the many who publicly praised the program, the speech had a familiar ring. In 1823, President Monroe warned Europeans that attempts "to extend their system to any portion of this hemisphere" would be considered a hostile act. On Wednesday, Mr. Reagan warned that "a new kind of colonialism. . . has established footholds on American soil."

Between the Monroe Doctrine and the emerging Reagan doctrine, the touchstone of United States policy has been its refusal to allow any outside power to challenge its domination of the region. The people of Central America and the Caribbean have learned over the last 150 years that Washington pays most attention to their countries when alarmed at extra-regional intervention. Present policy is built on the premise that the roots of the area's conflicts lie in the Soviet Union.

In the most practical sense — putting aside humanitarian impulses — the area has little intrinsic economic value for the United States. It does, however, have great strategic importance. Mr. Reagan's strong language last week, promising to do whatever was "prudent and necessary" to ensure stability in the area thus revived the specter of two dozen past United States military interventions. The President insisted, however, that Washington would not "follow Cuba's lead in attempting to resolve human problems by brute force," but would promote democracy and fight "totalitarianism" with economic aid and incentives as well as military support.

[redacted]

Washington's offer "to help our neighbors realize freedom, justice and economic progress" comes at a time when rebellions against dictatorship and poverty are well under way in Guatemala as well as El Salvador. Critics of the policy argued that Mr. Reagan's package was too little, too late, and addressed neither the main causes nor the main symptoms of the region's crisis.

The package of aid and investment incentives is aimed at the private sector and its success depends on investors' ability and willingness to create new exports. But civil war in El Salvador and political uncertainty elsewhere in the region are hardly enticements to risking capital. Not surprisingly, the governments of the region feel they need assistance more urgently. They must cover the balance-of-payments deficits brought on by high interest rates, large oil import bills and low world prices for coffee and sugar. Costa Rica, for instance, with a population of

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López Portillo Urges Talks on Region

By ALAN RIDING
Special to The New York Times

MANAGUA, Nicaragua, Feb. 21 — President José López Portillo of Mexico began a major initiative today to reduce political tensions in Central America with the warning that this could be the "last opportunity" to avoid a "conflagration" in the region.

Speaking before a huge crowd during a one-day visit here, Mr. López Portillo called for a broad process of negotiations to bring peace to El Salvador and to improve United States relations with both Nicaragua and Cuba. He added that Mexico was willing to act as a conduit to promote an easing of tension.

Addressing "my good friends of the United States," the Mexican President said that a United States intervention in the region would be a "gigantic historical error" and he stressed that events in El Salvador and Nicaragua "do not represent an intolerable danger for the fundamental interests and national security of the United States."

'A Position to Provide Guarantees'

On El Salvador, he referred indirectly to United States concern that a negotiated solution to the war could lead to a Marxist takeover and added, "Mexico and other friends and allies of the United States would be in a position to provide guarantees on this point."

Senior Mexican officials said Mr. López Portillo's initiative reflected his concern over the heightening of tensions in the region and his belief that Mexico alone could serve as a bridge between the polarized forces.

During today's ceremony, the coordinator of Nicaragua's ruling junta, Daniel Ortega Saavedra, also announced a five-point peace plan that included new negotiations with Washington, nonaggression pacts within Central America and the setting up of joint border patrols with neighboring Honduras and Costa Rica.

In addition, Mr. Ortega reiterated the Sandinist regime's commitment to preserve political pluralism and a mixed economy and "to hold democratic elections at the latest by 1985."

But the Sandinist commander also denounced "insistent reports" that the Reagan Administration had approved plans to destabilize the Nicaraguan revolution. "The most serious thing," he went on, "is that when President Reagan was asked if they were true, instead of answering with responsibility and seriousness, he said, 'No comment.' "

Speaking just 16 hours after a bomb inside a suitcase killed four baggage handlers at the Managua Airport, Mr. Ortega added, "We have every right to think that this bombing is not unrelated to the covert operations of the United States Government."

President López Portillo came to Managua today — it was his third visit here in two years — in order to receive the "Order of Augusto César Sandino" in thanks for Mexico's recent aid to Nicaragua. Today marked the 48th anniversary of the murder of General Sandino, who fought against a United States occupation force here in the early 1930's and whose name was adopted by the Sandinist National Liberation Front.

'Poor and Oppressed Peoples'

In his address, Mr. López Portillo sounded a conciliatory note, stressing that the "dramatic convulsions" affecting Central America were the result of "misery, tyranny and oppression" and could not be inserted "into the terrible dichotomy of East against West or capitalism against socialism."

He went on: "The Central American and Caribbean revolutions are, above all, the struggles of poor and oppressed peoples to live better. To say they are something else and to act as if they were is counterproductive: you finish up achieving what you wanted to avoid."

The Mexican President also pointedly urged the Sandinists to preserve political freedom and pluralism. "To my Sandinist friends, I say, continue along this path, which is the one chosen by your people."

The time had come, he said, to make public "the broad lines of a realistic, responsible and pondered alternative to the conflagration that will inevitably occur if serenity and concord do not prosper."

He stressed that it was essential for all parties to make "real concessions" in separate negotiations on the three key points of friction — relations between Cuba and the United States; the Salvadoran conflict, and the issue of Nicaragua. Mr. López Portillo made these points:

¶He said that last November's meeting in Mexico City between Secretary of State Alexander M. Haig Jr. and Cuba's Vice President, Carlos Rafael Rodríguez, opened the way for a dialogue between Washington and Havana. "We strongly accept the possibility that Mexico play a more active role in this context," he added.

¶On El Salvador, Mr. López Portillo said that the possibilities of a negotiated solution were fast shrinking. "Between elections without negotiations and negotiations without elections, there is a compromise solution," he said. He added, "This solution can be submitted to all interested parties for discussion."

¶On Nicaragua, Mr. López Portillo offered a three-point strategy. First, the United States should renounce any threat or use of force against Nicaragua; second, once Nicaraguan exile bands are disarmed in Honduras and forbidden from training in the United States, Nicaragua should "simultaneously" renounce the acquisition of arms and aircraft and reduce the size of its army, and third, Nicaragua should conclude nonaggression pacts with the United States and with its neighbors.

"From Managua, I make an appeal to peoples and governments," he concluded. "Together, let us avert a catastrophe. It is possible. The consequences of failure are unthinkable. Let us give ourselves one last opportunity."

Lebanon Premier in Riyadh

BAHRAIN, Feb. 21 (Reuters) — Prime Minister Shafik al-Wazzan of Lebanon arrived in Saudi Arabia today at the start of a Persian Gulf tour for talks on the worsening situation in his country. He was quoted by the Saudi Press Agency as saying at Riyadh airport that the main aim of his trip was to explain "the dangers facing Lebanon and the challenges which are imposed on it by the Israeli enemy, which daily threatens to occupy south Lebanon."

Mexico Outlines Stabilization Program

Special to The New York Times

MEXICO CITY, Feb. 21 — The Mexican Government has announced a package of economic measures, including a cutback in public spending, aimed at stabilizing the economy following last week's 30 percent devaluation of the Mexican peso.

Finance Minister David Ibarra Muñoz said at a news conference Friday that the economy would grow between 4.5 and 5 percent this year, about two percentage points less than was forecast in December. The economy grew 8 percent in 1981.

The Government will adopt a program "of the strictest possible financial and budgetary austerity" and will reduce the budget approved by the Mexican Congress by 3 percent, Mr. Ibarra said. "Priorities will be reordered, programs cut back and nonessential investments postponed in order to minimize the public sector's demands on the economy," he said.

In response to protests from opposition parties and labor groups about the devaluation, the finance minister promised that the Government would maintain price controls on basic products and would permit wage adjustments. "We do not want the workers and peasants to bear the weight of the measure," he added.

Apparently hoping to avoid a new surge of inflation, however, Mr. Ibarra postponed announcement of an emergency wage increase. He said, "As soon as we can gauge the impact of these measures, the necessary wage correction will be made to maintain the purchasing power of the workers."

At the close of currency trading on Friday, the dollar was quoted at 38.30 pesos to buy and 36.80 pesos to sell. Most banks maintained a $1,000 limit on purchases of pesos by the public. Along the American-Mexican border, the dollar was fetching as much as 45 to 50 pesos, according to reports here.

Mr. Ibarra said the peso would be allowed to float freely and would be adjusted daily to avoid becoming overvalued again in relation to major world currencies. The alternative, he added, would be a drastic slowdown of economic activity to sustain the peso.

The response of the private sector to Mexico's first major devaluation since 1976 appears to have been one of relief because it ended months of uncertainty about the stability of the peso. "We expected an adjustment sometime," said Mark Rossi, vice president of finance at General Electric de Mexico, "and this does not change our long-term investment plans in the least. We're in here for the long pull. I don't see anywhere near the situation we had in 1976."

Monetary Drain Noted

President José López Portillo said that a new flight of capital — some bankers estimated it at $100 million a day — had threatened to exhaust the central bank's reserves. "In the loneliness of my office, I thought we still had the chance of suffering less than we did in 1976," he said. "For this reason, I took the decision. It was not a good measure, but it was the least bad."

After a 40 percent devaluation of the peso in August 1976, the Mexican economy went into a serious recession, marked by both inflation and unemployment, until rising oil production revived economic activity in 1978.

Thursday's devaluation provoked a wave of criticism from labor leaders who demanded an emergency wage increase and a price freeze. Angel Olivo Solís, head of the Revolutionary Workers' Confederation, also called for foreign-exchange controls to prevent new speculation against the peso.

At his news conference, Mr. Ibarra denied rumors that exchange controls might be imposed or that dollar accounts in Mexican banks might be frozen. "This will not happen," he said. "There will be free and unrestricted convertability."

The finance minister said that peso interest rates — currently 36.8 percent for one-year deposits — would be maintained at present levels.

NY TIMES - 2-21-82

Mexico's Road to Trouble Is Coated With Oil

By ALAN RIDING

MEXICO CITY — When Mexico discovered large new oil reserves in the late 1970's, it vowed to avoid the mistakes of other third-world energy exporters that had allowed oil to dominate and distort their economies, sometimes with disastrous political results.

Iran's experience, which culminated in the ouster of the Shah, was the freshest warning. Mexican officials also took note of Venezuela's reliance on food imports, Nigeria's ports clogged with foreign goods and Saudi Arabia's enterprises overrun by foreign technicians.

Yet, almost fatefully, Mexico has also become addicted to oil, its dependence suddenly exposed by the world glut. Earning less from exports and borrowing more abroad than it had planned, the Government last week was forced to devalue the peso. The Bank of Mexico stopped intervening on exchange markets and the currency immediately lost 30 percent of its value.

In a sense, Mexico's new oil wealth imposed its own development model. The state oil monopoly, Petroleos Mexicanos, popularly known as Pemex, required vast resources not only to expand proven reserves and increase drilling capacity, but also to build gas sweeteners (to cleanse the crude of impurities), refineries and petrochemical plants. The results were impressive. Proven hydrocarbon reserves increased from 6.1 billion barrels in December 1976 to 72 billion barrels five years later. Oil output tripled to 2.7 million barrels per day, making Mexico the world's fourth largest producer, while exports rose from almost nothing to around 1.4 million barrels per day. The economy as a whole grew by 8 percent and created close to one million jobs each year since 1978.

The Government of President José López Portillo, sensitive to the political pressures of what was then a sellers' market, established a production ceiling of 2.7 million barrels per day through 1982 and an export limit of 1.5 million barrels — of which no more than half could go to a single client, to reduce dependence on the United States market. The Government also warned against the "financial indigestion" of excessive oil revenues and argued for conservation of energy reserves "for future generations."

In practice, though, this cautious oil policy was out of step with an expansionist economic policy. Oil export revenues fell far short of credit needs and the Government and private sector turned to foreign bankers who were all too happy to lend to a country so blessed with natural resources. Last week's devaluation caught Pemex's financial managers in London seeking a new $2 billion credit.

In the spending spree, energy conservation at home seemed out of place. Domestic fuel prices were kept low — $11 per barrel when the world oil price stood at $32. Not surprisingly, demand rose 15 percent annually, twice as fast as the overall growth rate and faster than the expansion of refining capacity. Gasoline consumption per automobile in Mexico was 55 percent higher than in the United States and 300 percent higher than in France. With many Americans crossing into Mexico to fill their tanks, sales at the northern border rose by 25 percent a year. Yet the Government, worried about the social effects of inflation, already at 30 percent, refused to adjust oil prices.

Then, last June, the bloom went off the boom. The oil glut forced Petroleos Mexicanos to lower its export price by $2 a barrel, but its director-general, Jorge Díaz Serrano, was promptly dismissed for so doing and his successor, Julio Rodolfo Moctezuma Cid, reversed the decision. Mexico's clients began canceling contracts and, within weeks, exports had dropped by 50 percent.

Deeper and Deeper in Debt

Since then, Mexico has slowly recovered its markets, selling its oil at prevailing — and still sinking — world rates. But it paid a stiff price. In political terms, Mexico, although not a member of the Organization of Petroleum Exporting Countries, was also taught the limits of oil power. In economic terms, the controversy shook confidence and provoked a flight of about $4 billion.

For all of 1981, Mexico earned $6 billion less than it anticipated; its current account payments deficit rose to a record $10.8 billion and the public foreign debt grew by $14.9 billion to $48.7 billion. That figure, combined with the private sector's estimated $15 billion exposure abroad, made Mexico (along with Brazil) one of the world's most indebted developing countries.

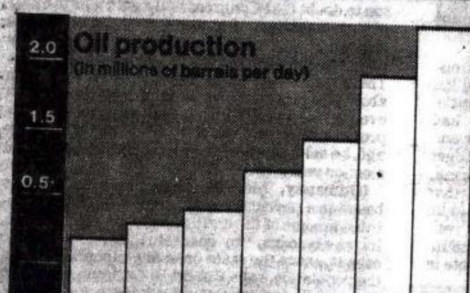
By early this year, a major devaluation seemed increasingly likely, yet the Government struggled to avoid it. It raised domestic oil prices by 119 percent, hoping to moderate domestic consumption and reduce Pemex's borrowing needs. It accepted a slower rate of economic growth and allowed the peso to "float" downwards slowly. President López Portillo appealed for Mexicans not to speculate against the peso, but the Government found it was having to finance a growing flight of capital with foreign loans. Finally, it decided to permit a devaluation.

The fundamental distortions of an economy where oil accounts for two-thirds of visible exports remain. "An economic policy relying mainly on oil also generates unacceptable social risks," noted Fausto Zapata Loredo, a Government party senator and adviser to the President. "The inflation it creates, the rapid deterioration of other sectors of the economy and the growing foreign dependence comprise a syndrome that does not go unnoticed by the Government."

With Mr. López Portillo due to leave office in December, the challenge of redesigning economic strategy will pass to his almost-certain successor, Miguel de la Madrid Hurtado, the ruling Institutional Revolutionary Party's candidate for the July 4 elections. The devaluation was a prerequisite for any new strategy and aides close to Mr. de la Madrid said he was pleased by last week's decision.

Construction workers building oil storage tanks for Petroleos Mexicanos.

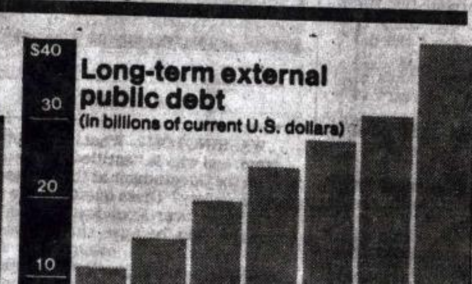
Contact/Gianfranco Gorgoni



*preliminary

Source: Petroleos Mexicanos

Source: Wharton Econometrics, Mexican Project

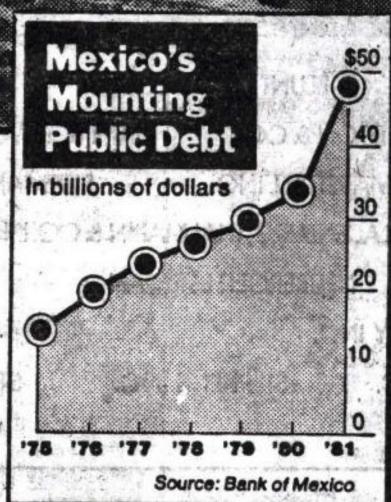


Source: Wharton Econometrics, Mexican Project

Mexico's Financing Problems

The New York Times / Andrew Sachs

Pumping oil at a Pemex refinery, part of Mexico's state oil monopoly.



By ALAN RIDING

Special to The New York Times

MEXICO CITY, Dec. 23 — The sharp deterioration in Mexico's financial situation this year has provoked conflicting responses of delight and nervousness among foreign bankers who have been helping to pay for this country's oil-based economic boom.

There is hope that Mexico will now be obliged to pay increased interest on its loans, becoming a more profitable market for foreign banks. But there is also fear that the Mexican peso may be heading for a major devaluation.

"People don't know whether to smile or to weep," said the representative of one large New York bank, who asked that his name not be used. "The Government is upbeat, the local business community is downbeat and bankers are just holding their breath."

In reality, question marks were first raised over Mexico's accounts when world oil prices began to soften last June. But the alarm bells only sounded late in November, when the Finance Minister, David Ibarra Muñoz, announced an unprecedented $4.9 billion increase in Mexico's public foreign debt during 1981.

These credits, half of which were unannounced short-term loans, raised the debt to $48.7 billion and, combined with a further $15 billion owed by the private sector, placed Mexico on a par with Brazil among the world's most indebted developing countries.

Mr. Ibarra Muñoz further estimated that Mexico's net foreign borrowing next year would be about $11 billion.

"They're not going to raise that at spreads of only half a percent" over the London interbank offering rate, or Libor, the New York banker said.

Recently, in fact, a $500 million Euroloan managed by Chemical Bank was signed in London by Mexico's State Development Bank at ⅝ of a point over Libor, the first clear sign that Mexico is willing to increase bank margins.

"Every year we ask ourselves if

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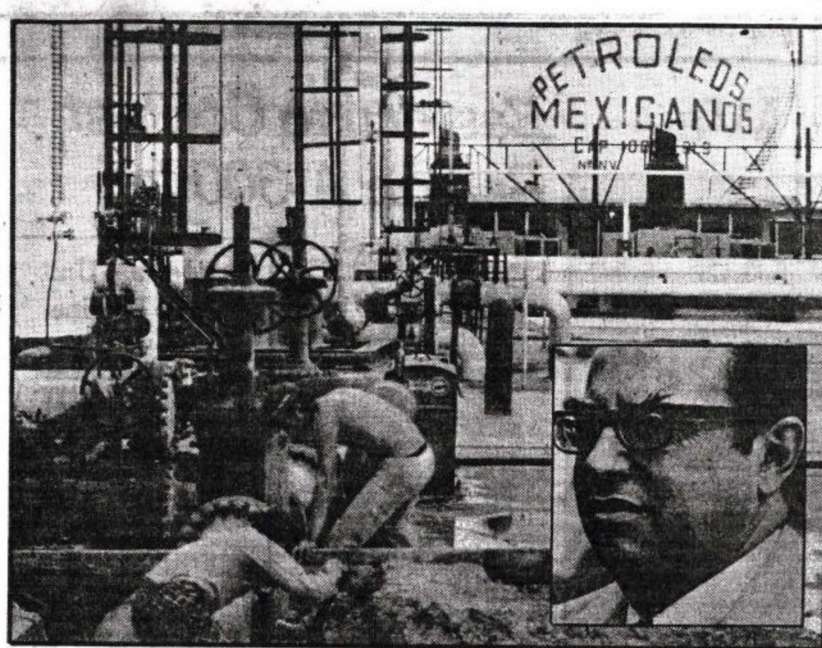

The New York Times/Camera Press

Petróleos Mexicanos, the state oil monopoly, has recently recovered markets it had lost after raising its crude oil export price above that of OPEC. Inset, Finance Minister, David Ibarra Mu ñoz.

Mexico's Financing Problems

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there will be enough liquidity to meet Mexico's demands, and every year we seem to find enough," said the representative of another American bank. "This year, if they increase the price to, say, one percentage point over Libor, they'll be able to borrow all they need."

Disturbing Trends

But the Government's relationship with foreign banks is only one facet of a financial picture that has darkened noticeably over the past year. Other disturbing trends have included these:

¶The drop in world oil prices has aggravated Mexico's temporary loss of clients following its effort to maintain high prices in mid-1981. This has meant a loss of about $6 billion in anticipated revenues this year.

¶A poor showing by nonoil exports, combined with continuing high imports, has produced for Mexico a record current-account payments deficit of $10.8 billion this year.

¶Several years of high inflation — this year, the rate is officially estimated at 29 percent — have weakened the pull of the tourist industry, and the overvalued peso has encouraged Mexicans to travel and buy abroad.

¶Fears of a major devaluation have lead to the export of about $4 billion since June 1981, much of it going into American real estate.

Some Positive Signs

On the positive side, the economy has grown for the fourth successive year, at about 8 percent in 1981, while three million new jobs have been created since 1978, fueling demand for food and manufactured products.

In recent months, Petróleos Mexicanos, or Pemex, the state oil monopoly, has also recovered the markets it lost last summer. Oil exports are approaching the target of 1.5 million barrels a day, while total production should soon level off at about 2.75 million. Mexico's proven oil and gas reserves stand at 72 billion barrels, and Mexico is the world's fifth-largest producer. Oil revenues in 1982 should reach $18 billion.

On Monday, Mexico moved to reduce Pemex's dependence on foreign credits by raising domestic oil prices for the first time in five years. The doubling of the price of the most widely used gasoline — to the equivalent of 87 cents a gallon in United States currency — should bring in an additional $3.5 billion to $4 billion next year.

Slower Growth Is Planned

For next year, the final year of the administration of President José López Portillo, the Government has announced plans to hold real public spending at 1981 levels and slow the economic growth rate to between 6.5 percent and 7 percent.

"We must concentrate on completing and tuning what we have begun; on avoiding risks which, through excessive audacity, could provoke undesirable problems in the future," the Finance Minister told Congress Nov. 25.

In the view of both foreign bankers and Government economists, however, the administration's greatest challenge is to "float" the overvalued peso downward fast enough to avoid the need for a sudden, confidence-shaking devaluation.

Yet it must do so without touching off a new flight of capital.

"If they really speed up the float, they might get away with it," one American bank representative argued, "but they're taking a great risk. Seeping uncertainty could quickly turn into a panic, and they'd soon run out of money and be forced to devalue. But they at least think they can do it."

The dominating specter is a repetition of the large devaluation in August 1976. In a matter of weeks, the peso fell from 12.50 to the dollar to a record low of 29, later stabilizing at about 22 pesos after President López Portillo took office in December 1976.

But, over the following four years, as inflation eroded the real value of the peso, the Government intervened in a "dirty float," leaving the peso technically free to fluctuate against the dollar but also taking steps to sustain the Mexican currency. Only this year has the central bank allowed the peso to slip gradually, by about 13 percent, to 26 pesos to the dollar from 23.

In 1982, however, officials plan to allow the peso to lose 18 percent to 20 percent of its value through almost daily but, it is hoped, unnoticed, minidevaluations, ending the year with an exchange rate of 30 or 31 pesos to the dollar. This would bring the peso's value down to about 3.3 cents from 3.8 currently.

Keeping Domestic Rates High

One side effect of this depreciation would be the need to maintain high domestic interest rates, at or above the combined rate of the devaluation and Libor. But the shortage of domestic credit might still force private companies embarked on expansion programs to borrow abroad.

"At the moment, I'm analyzing how my top private-sector clients would be affected by a major devaluation," one foreign banker said, "and, of 35 companies, I think about 6 would go under."

In the current mood of uncertainty, then, neither the public nor the private sectors can expect to find foreign bankers waiting for them with open checkbooks, as they did barely 12 months ago.

"It's going to be an interesting wrestling match," said one foreign economic analyst, who declined to be quoted by name. "The bankers are going to play hard to get, with an eye to making more money, but Mexico's Finance Ministry officials also know the banks have no choice but to lend to Mexico, and they're going to hold out for thin spreads."