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# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 8, 1979

FROM: J. Burke Knapp JBK

SUBJECT: Mexican Contribution to IDA 6

With further reference to my memorandum of December 27, on the above subject. In the absence of Fred Bergsten I have talked with Ed Fried and Arnie Nachmanoff at Treasury with regard to the sentiments expressed to me by Latin Americans that contributions to IDA by Latin American countries might damage their case, at least in the eyes of the United States, for continuing to receive loans on a substantial scale from the World Bank. This concern was expressed to me by David Ibarra, the Mexican Minister of Finance, and more recently by Alex Kafka who specifically asserted that a Brazilian contribution to the African Development Bank had been used by Fred Bergsten as an argument for reducing Brazil's access to the Inter-American Development Bank. In response to such views, I have been contending that contributions by the Latin American countries to IDA would, far from damaging their case, be helpful to them by demonstrating their cooperation with the World Bank Group in helping the poorest countries.

1/9

Both Fried and Nachmanoff fully supported this view and said that as far as the United States was concerned it would be a definite "plus" for the Latin American countries if they contributed to IDA. They had no doubt that Fred Bergsten would agree and I asked them to report our conversation to him upon his return. So far as Brazil and the African Development Bank are concerned they thought Fred Bergsten must have been misquoted or that what he said was "in jest".

The only reservation was a reasonable one made by Ed Fried, namely, that a Latin American country that made a contribution to IDA could not expect thereby to obtain immunity from criticism of the level of World Bank lending to that country.

cc: Messrs. Cargill
Ardito-Barletta
Vibert
Clarke

JBKnapp:isk

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. I.P.M. Cargill

DATE: December 26, 1978
Slightly revised as of
January 3, 1979

FROM: J. Burke Knapp

SUBJECT: IDA 6 - New Donor Countries

I think the time has come to review our targets for the amount of contributions to IDA 6 by new donor countries.

As a starting point I note that we are asking the traditional donors for contributions to IDA 6 in the amount of $13 billion, representing .050 percent of their estimated aggregate GDP in FY81-83.

For purposes of simplification in relating the contributions of new donors to each other, and, for that matter, to those of the traditional donors, I am taking as a standard merely their 1977 GNP.1/ The $13 billion sum would represent about .25 percent of the 1977 GNP of the traditional donors.

We now come to the difficult question of how we should pitch our targets for new donor countries, all of whom (aside from the special cases of Libya and Qatar) have per capita incomes amounting to only a fraction of those of the major traditional donors.

Of course we want to get as much as possible out of them but, on the other hand, we do not want to frighten them off by asking too much. It is important to get them started, for psychological reasons, and once started, we can seek more from them in the future.

My starting point has been to get Spain and Yugoslavia, as the Part II precursors in making IDA contributions, up to a much higher level than before. For IDA 6 I have proposed the figure of $70 million to Spain and $20 million to Yugoslavia, representing .06 percent and .045 percent respectively of their 1977 GNP. (As you know, the contributions for IDA 5 from Spain and Yugoslavia were only $21 million and $8.1 million respectively at the exchange rates then prevailing, and the figures are very little different at today's exchange rates.) The attached table shows these figures, together with my presently proposed targets for new donor countries.2/

For the non-OPEC countries, and also for Algeria and Venezuela, I have pitched the figures in relation to Spain and Yugoslavia, taking into account relative per capita incomes and other factors. (The figure for

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1/ The shift from GDP to GNP makes very little difference for the traditional donors. Also note that taking as the standard either GDP or GNP during the IDA 6 commitment years is in itself a simplification since the real burden of IDA contributions is spread over the 10-year disbursement period.

2/ I have now omitted Singapore and Iran as prospective donors to IDA 6. I am also counting Korea as a new donor since their contribution to IDA 5 was only a nominal $1 million.

Malaysia, however, is their proposal, which clearly puts them out of line with their peers.) For Libya, Iraq and Qatar I have had more in mind the level of contributions from Saudi Arabia, Kuwait and the UAE, figures for which are also shown in the attached table.

In the case of Argentina, Brazil, Venezuela, Mexico and Trinidad and Tobago I am also taking into account the important fact that in the recently completed negotiations for the four-year replenishment of the IDB's Fund for Special Operations the convertible currency 3/ contributions of these countries were agreed as follows:

| | |
|---|---|
| Argentina | $72 million |
| Brazil | $72 million |
| Venezuela | $70 million |
| Mexico | $46.5 million |
| Trinidad and Tobago | $ 3.9 million |

Since Argentina, Brazil and Venezuela have agreed on virtually identical contributions to the FSO I have followed the same principle in my proposals for these countries' contributions to IDA 6, despite the fact that this pitches Argentina considerably higher than I would otherwise have suggested. Also note that my proposed figure of $50 million for these countries would be a little less on an annual basis than their contributions to the FSO. As for Mexico, if we followed the FSO proportions, we might have asked $32.5 million from them for IDA 6, but in fact I have already put to them the figure of $25 million. My absolute figure for Trinidad and Tobago is approximately the same as their contribution to the FSO.

One more point with respect to Argentina and Brazil. In view of the chronic inflation in these countries, and their policy of "crawling peg" devaluation of their currencies, I would propose that we ask them to make their contributions to IDA 6 in US dollars rather than in terms of their own currencies.

Attachment

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3/ Argentina, Brazil and Mexico also made local currency contributions which are reserved solely for financing local expenditures on projects in the particular donor country.

cc: Mr. Vibert

JBK napp:isk

| Country | Per Capita GNP 1977 | Possible Contribution to IDA 6 (in US$ million equivalent) | | Same as % of 1977 GNP |
|---|---|---|---|---|
| Spain | 3210 | 70 | (already proposed) | .06 |
| Yugoslavia | 2060 | 20 | (already proposed) | .045 |
| **Non-OPEC** | | | | |
| Brazil | 1425 | 50 | | .03 |
| Argentina | 1880 | 50 | | .10 |
| Mexico | 1100 | 25 | (already proposed) | .035 |
| Trinidad & Tobago | 2650 | 4 | | .15 |
| Romania | 1580 | 15 | | .045 |
| Greece | 2880 | 15 | (already proposed) | .06 |
| Malaysia | 950 | 35 | (already offered) | .30 |
| Korea | 860 | 10 | | .035 |
| Total | | 204 | | |
| **OPEC** | | | | |
| Libya | 6640 | 75 - 100 | | .43 - .65 |
| Iraq | 1600 | 50 | | .25 |
| Qatar | 11600 | 15 | | .60 |
| Algeria | 1130 | 10 | | .05 |
| Venezuela | 2870 | 50 | | .14 |
| Total | | 200 - 225 | | |
| Grand Total for New Donors | | 404 - 429 | | |
| Singapore | 2800 | 5 | | .08 |
| **Memo Items** | | | | |
| Saudi Arabia | 5320 | 590 1/ | | 1.20 |
| Kuwait | 13000 | 300 1/ | | 2.10 |
| UAE | 15300 | 85 1/ | | .75 |

Part I contribs (of a total of $13b) are proposed at .050
vs. .046 for IDA V

1/ IDA 5 share of $13 billion.

January 3, 1979

FORM NO. 75
(1-76)

THE WORLD BANK

| ROUTING SLIP | DATE: December 27, 1978 |
|---|---|

| NAME | ROOM NO. |
|---|---|
| Mr. McNamara | |
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| | APPROPRIATE DISPOSITION | | NOTE AND RETURN |
| | APPROVAL | | NOTE AND SEND ON |
| | CLEARANCE | | PER OUR CONVERSATION |
| | COMMENT | | PER YOUR REQUEST |
| | FOR ACTION | | PREPARE REPLY |
| | INFORMATION | | RECOMMENDATION |
| | INITIAL | | SIGNATURE |
| | NOTE AND FILE | | URGENT |

REMARKS:

With regard to the amount of the Mexican contribution to IDA 6, I should like to discuss this with you separately in the context of what we have asked and are planning to ask from new donor countries.

| FROM: | ROOM NO.: | EXTENSION: |
|---|---|---|
| J. Burke Knapp | F.1318 | 76671 |

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 27, 1978

FROM: J. Burke Knapp JBK

SUBJECT: Mexican Contribution to IDA 6

The following memorandum is for your use during your forthcoming visit to Mexico.

During the Annual Meeting I had a talk with David Ibarra, the Mexican Minister of Finance, regarding Mexico's participation in IDA 6. His reaction was very positive and he said that he would follow up with his colleagues in Mexico. I did not mention a specific figure at our meeting but a few days later, through Eduardo Pesqueira, I proposed a figure of \$25 million, emphasizing the small annual burden that this implied over the IDA 6 disbursement period of 1981-90. (Average of \$2.5 million per annum with a peak of \$5 million per annum in the middle 80's.)

Before the end of October Pesqueira called me to say that Mexico had decided to participate in IDA 6 and to send a Deputy to the Paris meeting. I specifically asked Pesqueira whether he meant a Deputy or an Observer, pointing out that sending a Deputy implied a definite commitment to participate. After checking his sources Pesqueira reiterated that they would send a Deputy and that he hoped to fill that role himself.

On October 24 I wrote to Mr. Ibarra to thank him for his response, and on November 9 you wrote to him expressing your pleasure at Mexico's action and transmitting the papers for the Paris meeting. (See copy attached.) No reply has been received to either of these letters.

However, in the event, Mexico was not represented in Paris and in a subsequent telephone conversation with Eduardo Pesqueira in Mexico I learned that, in fact, the matter had not yet been finally cleared with the President. Pesqueira repeated his full confidence that Mexico would participate but said that they were hesitating over the amount of their contribution, feeling that the figure of \$25 million was pitched very high.

The factor that may well be weighing on the Mexican minds is their concern about recent efforts by the U.S. (at least the U.S. Treasury) to restrict lending by the World Bank and the Inter-American Development Bank to the higher-income Latin American countries, meaning in particular, Argentina, Brazil and Mexico. David Ibarra raised this matter with me in our first conversation and said that any serious move in this direction would be damaging to Mexican cooperation with the World Bank Group.

Since then the subject has come to a head in the IDB and one feature of the recently negotiated increase in the IDB's capital and the replenishment of its Fund for Special Operations is a provision requiring the Bank not to increase its annual lending in nominal terms to these three countries.1/ The ceiling for each of them is now $250 million a year. It remains to be seen how far the U.S. will try to push this matter in the World Bank. In any case I would certainly hope that you can persuade the Mexicans not to let this issue stand in the way of their acceptance of participation in IDA 6. The way for them to affirm this is to send a Deputy to the next Deputies meeting to be held in Paris in the second half of March.

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1/ You may recall that Fred Bergsten, in his recent testimony before the Gonzalez Committee, described this action as follows:

> "The second graduation step is that, in the capital window of the Bank, the largest and more prosperous Latin countries - Argentina, Brazil and Mexico - would receive no increase in borrowing in light of their widespread access to private capital markets. Thus they will sharply reduce their percentage share of IDB lending, although retaining sizable amounts in absolute terms. The Bank will help them adjust to this change by arranging an increased amount of co-financing for them with IDB projects, improving still further their access to private capital."

Incidentally, the IDB has already phased out its lending to Venezuela.

Attachment

cc: Messrs. Cargill
Ardito-Barletta
Vibert
D.R. Clarke

JBKnapp:isk

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of the President

November 9, 1978

His Excellency
David Ibarra Muñoz
Secretary of Finance and
Public Credit
Palacio Nacional, 3er piso
Mexico 1, D.F., Mexico

Dear Mr. Minister:

I was greatly pleased and encouraged to hear through Mr. Pesqueira of the decision of your Government to participate in the next replenishment of the resources of IDA (the International Development Association), and to designate a Deputy to represent you at the first meeting of the Deputies on the Sixth IDA Replenishment that will be convened in Paris on December 11-12, 1978. Please regard this letter as our official invitation to Mexico to attend this meeting; the agenda and other relevant papers for consideration at the meeting are attached.

As you will well know from your participation in the Bank's Annual Meeting in Washington in September, there is an increasingly widespread recognition, stimulated in part by the Bank's recent World Development Report, that the plight of the poorer developing countries makes pressing calls upon all of us to augment both the amount and the effectiveness of external assistance to these countries. The World Bank Group, because of its central position in the family of international development institutions, feels a sense of great responsibility in this matter. We are therefore bending every effort toward mobilizing more concessional funds for assistance to the poorer developing countries, and toward making further improvements in the administration of the funds provided to us. In particular, we are reorienting our activities toward a direct attack upon the appalling conditions of poverty that exist in these poorer developing countries.

IDA will play a key role in this program since the great bulk of its assistance is rendered to countries whose per capita income still remains below $300 a year. Hence, there is nothing to which I attach higher priority than the successful conclusion of the international negotiations for the Sixth Replenishment of IDA Resources.

So far as the Mexican action is concerned, I understand that Mr. Knapp has already expressed to you his conviction that it will be very warmly welcomed by the international community, first of all by the developing countries that will be the ultimate beneficiaries of your generosity, and secondly by the principal donor countries to the IDA fund, who will find their own position with their Parliaments and Congresses greatly strengthened by the participation of Mexico and other leading developing nations in the IDA Replenishment. I very much agree with this assessment; furthermore, I am sure that your action will be most helpful to us by encouraging other middle-income developing countries to join in our IDA program for assisting the poorest countries through collective international action.

With best personal regards,

Sincerely,

Robert S. McNamara

Robert S. McNamara

Enclosures

WORLD BANK / INTERNATIONAL FINANCE CORPORATION 1/2/79 Mr. Dutt

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 26, 1978

FROM: Warren C. Baum, CPSVP

SUBJECT: CGIAR - Mexico as a Possible Member

1. We have been considering how to improve the representation of the developing countries in the meetings of the CGIAR. A few LDCs are members by virtue of being donors to research centers supported by the Group. Nigeria and Iran are examples. Officially, developing countries are represented by members elected by the FAO regional conferences of FAO members. The countries elected serve as members of the Group for two years at a time. There are two countries from each region, making a total of ten. Experience shows, however, that often they do not send representatives to CGIAR meetings, and the representatives sent are often not very effective. People from the LDCs are, of course, influential within the CGIAR system in other ways. All Boards of Trustees of centers, for example, include members from the developing countries and half the membership of the Group's Technical Advisory Committee is drawn from the LDCs. Moreover, the centers cooperate closely with national research programs.

2. We believe, however, that the time has come to consider inviting some of the larger or richer developing countries to become donor members. We think India might be interested and have already put out a feeler. We have heard that the Philippines, too, might be interested. Mexico should be a good candidate, and I would like to suggest that you raise the question in principle with the appropriate ministers when you are in Mexico in January. Mexico's size and relative wealth and the relative sophistication of its national research effort all suggest that it would be a logical choice. Moreover, it has long had the benefit of external assistance for its agricultural research, first through the efforts of the Rockefeller Foundation, and more recently as host to CIMMYT.

3. With Saudi Arabia, Nigeria and Iran -- all of whom have made substantial contributions -- we have taken the position that they should support the activity of the Group generally rather than solely the particular center for which they might be host. All, therefore, have supported a number of centers (though by no means necessarily all the centers in the CGIAR system). We would hope Mexico would do the same, though it is possible they might wish to confine their support to the three centers in Latin America - CIAT in Colombia, CIP in Peru and CIMMYT in Mexico itself.

4. We do not have a specific level of contribution in mind. This could be a matter of discussion at a later stage. However, a million dollars or more would be satisfactory, and anything less than half a million would be a poor precedent and hardly worthwhile.

/Continued...

5. You will remember that the contributions of the IADB to the three centers located in Latin America are paid out of the Social Progress Trust Fund managed by the IADB. This Fund was originally subscribed by the US in dollars. To a large extent loans made out of it are serviced in local currencies. Mexico has regularly paid into the Fund large amounts of Mexican pesos to meet payments of principal and interest due, and it is from this supply of pesos that the IADB has contributed to CIMMYT. In the past, the supply of pesos has exceeded the amount of the IADB's contribution, but the supply is tailing off and in future may be too small. IADB intends to use other sources of Mexican pesos. Mexico retains some influence over IADB's use of pesos and IADB may not yet have cleared its lines with Mexico on the future use of pesos for CIMMYT. I doubt that this presents any problem, but thought you should be aware of it. We have consulted with José Epstein, Manager of the Department of Plans and Programs (who is the person concerned), and he does not believe raising the question of CGIAR membership would cause the IADB any difficulty.

6. I am aware that the Bank is in the midst of discussion with Mexico about becoming a contributor to IDA and that you will probably be discussing that question when you are there. This and membership in the CGIAR are both part of the broader question of Mexico's potential role as a provider of official development assistance. I hope you will find it appropriate to mention the CGIAR in this broader context. While other ministries (such as Foreign Affairs and Agriculture) will have an interest, I assume you will wish to raise it initially with the Ministry of Finance and ask them to discuss it with the other ministries. Our immediate objectives are (a) to get Mexico to send a representative to an early meeting of the CGIAR (we have a mid-season meeting in May, but the next Centers Week - which would probably be more appropriate - would be in November), and (b) to open a dialogue with the appropriate Mexican officials on the implications of CGIAR membership and the appropriate level of contribution. If you find the Mexicans receptive, could you please ask them to indicate the person with whom we should discuss the question further.

7. I would be glad to answer any questions you may have.

Cleared with Mr. Lari
c.c. Messrs. Ardito-Barletta, Lari, Dutt, Koch-Weser, Cargill, Knapp

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10/13 Mr. Dutt (LC1)

UNDP

# UNITED NATIONS DEVELOPMENT PROGRAMME

Distr.
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DP/GC/MEX/R.2
6 March 1978
ENGLISH
ORIGINAL: SPANISH

GOVERNING COUNCIL
Twenty-fifth session
12-30 June 1978, Geneva
Agenda item 16

Country and intercountry programming and projects

COUNTRY PROGRAMME FOR

MEXICO

UNDP assistance requested by the Government of Mexico
for the period 1978-1981

EMBARGO:

NOT FOR PUBLICATION UNTIL FORMALLY APPROVED
BY THE GOVERNING COUNCIL

78-04384

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## I. INTRODUCTION

The Government of Mexico, through its Ministry of Foreign Affairs, hereby submits its proposals for the period 1978-1981 for consideration and, if they are in order, approval by the Governing Council of the United Nations Development Programme.

On the basis of the guidelines laid down by the President of Mexico, Mr. José López Portillo, this document describes the objectives regarded as priorities for Mexico's development after consultations with the sectoral heads of the relevant priority areas, namely: food, energy, capital goods and job generation. International co-operation is therefore being sought to back up the co-ordinated activities planned by the various agencies in the public sector.

As a result of this consultation process, more than 120 projects were submitted, representing a total cost of approximately $170 million in terms of the international co-operation requested. A selection was made among these projects on the basis not only of national priorities but of the possibilities of integrated programming for the whole group. Account was also taken of the new scope of the United Nations Development Programme and the possibilities of negotiating bilaterally and with United Nations agencies which have their own resources and programme.

## II. DURATION OF THE PROGRAMME

This programme covers the four-year period 1978-1981. As the previous five-year programme covered the period 1973-1977, it was one year out of step with the periods covered by the UNDP Indicative Planning Figure. It has been brought into line with the IPF period by limiting the present programme to four years.

The year 1977 was used as a transitional year between the two periods and enabled the new Government of President López Portillo to define its development and technical co-operation objectives.

Available UNDP resources for this period total $US 17,111,304 (see table in the annex).

## III. NATIONAL DEVELOPMENT PROSPECTS

Taking into account our development potential and the economic and social crisis facing the country when it came into power, the present Government drew up a country programme in the form of a Popular Alliance for Production, through which a number of agreements were reached with the different production sectors and the private sector was persuaded to invest in various sectors of the economy.

The necessary financial instruments were secured for this purpose by implementing appropriate fiscal, monetary and credit policies, regulating profits, prices, wages, foreign exchange transactions, the national and foreign debt and public expenditure and investment.

/...

This Alliance, which will make it possible to satisfy our need for harmonious growth and development in the context of a continuing commitment to social justice, has the following objectives:

1. To increase production and generate employment, at the same time altering the structure of production in order to gear it towards goods and services which satisfy the basic needs of the largest groups; mass production of such goods and services should lower costs and improve quality, thereby guaranteeing minimum levels of well-being for the entire population.

2. To improve income distribution in order to reduce inequalities which are not only unjust for those who have been left behind by progress but also prejudicial to the entire population, since in the last analysis, advantages and disadvantages alike will always affect everybody sooner or later, particularly in present circumstances.

3. To promote self-determination through national economic independence, strengthening our mixed economy and directing our activities towards achieving the proposed goals. For our country possesses vast and diverse resources which must be more effectively utilized, with special emphasis on satisfying social interests, because that is the best way to satisfy individual interests in the long run.

At the same time, the Alliance provides for an export policy which will take advantage of surplus production capacity, restrict imports and promote the production of labour-intensive goods. It provides further for issuing stocks backed by our national resources and raw materials; combating financeering and speculation; promoting tourism; reorganizing the civil service to prevent lack of co-ordination or duplication; decentralizing a number of administrative departments and responsibilities on the basis primarily of the Single Investment and Development Agreements concluded with the state Governments and strict enforcement of accountability among civil servants.

On the basis of the above-mentioned national priorities: food, energy, capital goods and the resulting increase in employment opportunities, and in order to satisfy the basic needs of the largest population groups, activities have been launched with resources from the 1978 budget, which is 23.6 per cent higher than the 1977 budget. The priority areas covered by the budget are: agriculture, fisheries, energy, industry, education, culture, health and social security.

President López Portillo has said that economic and social planning is a vital instrument which serves the Government as the motor of administrative reform. Through it the Government can fulfil its commitment to ensure that objectives and strategies, goals and instruments are much more closely matched in future.

Planning is carried out on a continuous basis so that it can remain relevant to the actual situation to which it is being applied. Hence the importance attached to evaluating the results of the planning exercise itself, the key to the effective revitalization of the entire process in the light of experience.

/...

## IV. DEVELOPMENT OBJECTIVES AND UNDP CO-OPERATION

The global objectives of Mexico's economic and social development are summarized above. UNDP support for the country's efforts to achieve those objectives is therefore concentrated in top priority areas where the multisectoral technical co-operation envisaged by the United Nations system can be expected to be most beneficial.

Since the global objectives of the country programme are aimed at backstopping the priority objectives of economic and social policy, their intersectoral content and the desired interrelationship between theoretical and applied methodological research, training and advice, planning has the advantages of a multiple approach, with the result that the interrelationship between projects adds to their impact. This provides a solid basis for visualizing forms of co-operation which will have to be expanded and developed in future.

On this basis and in view of the fact that our resources are severely limited and that the Government is considering various alternatives for using them, the country programme is essentially aimed at achieving the following principal objectives: 1/

To revitalize the rural sector of the economy and in particular to increase food production and productivity; to create new jobs and stimulate income generation; to further organize the economic and social infrastructure and the marketing infrastructure for agricultural products; to create the necessary conditions for maximum utilization of natural resources ecosystems, by:

- Programming public investment in the rural sector at macro- and micro-economic level, with special emphasis on the country's poorest regions;

- Multisectoral regional planning of economic space in order to develop areas which are economically important;

- Improving and expanding facilities for the marketing of agricultural commodities and for the design and operation of functional information systems on agricultural markets and prices;

- Applied research, extension work and training in areas where development is of only marginal economic importance, namely the humid tropical area of south-east Mexico and the arid and semi-arid areas of the north-east;

- Developing veterinary education and research at post-graduate level;

- Industrializing agricultural production and promoting small-scale agro-industrial complexes.

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1/ An outline of the projects which the Government intends to submit in relation to each of the above objectives is reproduced in the annex.

/...

Fishing has not developed at the same rate as the country's other economic activities. Once the exclusive economic zone is created, the exploitation of marine natural resources should increase considerably. Development of the country's fishing industry will involve:

- Improving the nutritional level of the population, in particular the lower-income groups, with special emphasis on increased fisheries production and improved distribution on the domestic market;

- Modernizing fishing technology;

- Developing the domestic market in fish products by increasing the volume of fish processing plants, improving storage and marketing systems and making products cheaper, especially for those species of fish which are accessible to large population groups;

- Increasing and diversifying fisheries exports;

- Training more marine scientists.

United Nations co-operation in the energy sector is concentrated principally on non-conventional energy sources and their use for development purposes. At the sectoral level, co-operation is aimed at developing geothermal and solar energy, both vital to the country's interests as viable alternatives to extreme dependency on hydrocarbon fuels, and involves:

- Increased exploration and research into geothermal energy;

- Applied research into a variety of projects which could use solary energy;

- Work with remote sensing techniques and geophysical and geothermal research.

In the industrial sector, resource utilization is directed towards the promotion of appropriate technologies and the adaptation of techniques, relying heavily on applied research; creation of a national industrial data system; the design and production of packaging materials and, in particular, the planned development of the capital goods industry. Specific activities are planned in the following areas:

- Selection and promotion of specific industrial development investment programmes and projects on the basis of increasing industrial competitiveness. The capital goods sector is one of the main weaknesses of the country's industrialization process and one of the most urgent tasks to be faced in the industrial sector;

- Strengthening of the technological and engineering base of industry;

- Promotion of research into the design and production of canning and packaging materials, thereby helping to stimulate the domestic market and, in particular, to improve exports. Similarly, promotion of:

/...

(a) Innovative technology to reduce dependence on other countries;

(b) New and broader employment opportunities at all levels;

(c) Improved scientific and technical information systems for industry by improving internal communications, information and documentation systems;

(d) The development of an infrastructure for the education and training of staff of the information systems component of the industrial sector;

(e) The development of applied technological research and efficient technical assistance services for the industrial sector, giving preference to small and medium-sized industries in order to increase plant efficiency;

(f) Research into alga spirulina in order to increase the protein content of the national diet.

Employment planning and promotion programmes are designed to cope with employment problems by focusing on achievement of optimum levels of productivity and efficiency, which activate social distribution mechanisms to produce acceptable levels of well-being. Those programmes bolster employment policies by:

- Analysing the factors of supply and demand at macro-economic, regional and sectoral level;
- Evaluating employment potential in growth sectors;
- Analysing methods of producing goods and services and changing techniques for organizing production;
- Strengthening institutional research and training capacity in areas related to employment;
- Devising policies and designing programmes to promote opportunities for productive employment, in particular in the rural sector and in small- and medium-scale industry;
- Training the rural labour force and encouraging more active participation by the rural population in community decision-making.

The global objective with regard to human settlements is to provide basic research for economic and social planning, principally at regional level, by:

- Research into the structural characteristics and operating conditions of the rural economy; the requirements for implementing rural development programmes in semi-arid, arid and tropical zones; and the prospects for developing food and agricultural production in the various regions of the country;

/...

- Interpreting the relationship between growth and the location of industries;
- Studying the main structural aspects of the national urban system;
- Research into and creation of suitable conditions for promoting integrated urban and rural growth which will in turn stimulate sound economic and social development and help the country to make maximum use of its regional resources;
- Identifying new investment opportunities for the establishment of industries and services.

One of the Government's main objectives in its efforts to strengthen planning as an integral activity of the public sector is to train qualified staff for development planning. Training is provided through a core programme, supplemented by special training courses, seminars, round-tables etc., which is intended to serve as a forum for the exchange of experience among international and national personnel. Activities in this area involve:

- The design and functioning of a system of national institutions for the systematic training of public sector staff at federal, state and municipal levels in those areas most directly involved in the promotion, management and planning of Mexico's economic and social development, more specifically, the public sector and regional development, and in the preparation of project investment programmes and programme budgets;
- The training of public sector staff to ensure that they participate more effectively in international meetings;
- Raising the level of training of middle-level management staff in public sector enterprises;
- Devising an interagency strategy which will rationalize and stimulate statistical activities, and designing an integrated system of national accounts which will provide information on the general characteristics of economic phenomena and facilitate their analysis, explanation and forecasting;
- Devising a system for obtaining information on potential sources of international technical assistance;

## V. RELATIONS WITH THE UNDP REGIONAL PROGRAMME

Mexico is participating in many UNDP regional projects, which supplement its national programme activities. This co-operation offers excellent opportunities for a unified approach to the Latin American region, consistent with national interests. Within this context, Mexico is particularly interested in UNDP support for the efforts of the developing countries to achieve a new international economic order, and thereby a form of international co-operation in which technical, economic and financial components would be combined within an integrated national planning framework at various levels of government, with increasing popular participation.

Rural development and progress in science and technology are among the subjects of special interest for Mexico, since they lend themselves to fruitful co-operation on a regional and interregional level. These areas are typical of the priority multisectoral objectives of the Government: self-sufficiency in food, development of the energy sector, etc. - and lend themselves to forms of co-operation based on the exchange of experience among various countries. Generally speaking, this multisectoral approach to international co-operation is a prerequisite for translating regional co-operation into programmes operating at various levels of co-ordination.

These intersectoral modalities are also particularly suited to the implementation of co-operation schemes among developing countries (TCDC), which have already proved to be a valuable instrument for extending the scope of technical co-operation programming and for consolidating lasting relationships, on a basis of equality among institutions of different developing countries. This so-called horizontal co-operation is in line with the Mexican Government's support of a policy of self-sustained development on the part of the developing countries, which really means a gradual blending of economic and social policy-making, the technical aspects of economic and social programming and experimentation with technologies of local or foreign origin.

Mexico has also been host to many study trips sponsored by TCDC, particularly in the fields of industrial technology, the development of the petrochemicals industry and the technology of farming in arid zones, particularly irrigation techniques. In this respect, Mexico has been one of the leading countries in Latin America in hosting exchange programmes.

Mexico is the location of the global research project called "International Maize and Wheat Improvement Centre" (CIMMYT). The main emphasis of phase III of this project, to which UNDP is contributing over $5 million, is on applied and supportive research and on training. The basic research programme has yielded a range of highly productive varieties of maize with improved agricultural properties. Supportive research is programmed to ensure that the varieties obtained are distributed throughout the world for testing and selection. In order to ensure that new technology is available for agricultural improvement programmes in each country, this programme is training a number of researchers to adapt it as appropriate in their respective countries.

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## VI. PRINCIPAL ASPECTS OF THE UNDP TECHNICAL CO-OPERATION PROGRAMME FOR MEXICO

The most significant aspect of this technical co-operation programme is that it represents a first step in making all external multilateral and bilateral technical co-operation part of Mexico's economic and social planning. In this way, it is hoped to make effective use of external resources firstly to backstop global, sectoral and regional programmes, and secondly, as a point of departure for gradually linking external technical co-operation with financial co-operation for development.

This general policy, which has brought the technical co-operation programme into line with the objectives and priorities of national economic and social planning, will also preserve its internal unity while gradually increasing its indirect impact, as activities are stepped up, in national and regional projects and in multilateral and bilateral programmes.

Thus, UNDP technical co-operation is expected to have a substantial multiplier effect despite the sharp reduction in real resources, which becomes all the more apparent when considered over a period of approximately 10 years, and particularly in the light of the significant increase in technical co-operation requirements and in the capacity to absorb resources. Naturally, this situation lends emphasis to the strategic use of programmed resources, concentrating first on a few priority areas and then retaining a significant margin of flexibility, so that the programme can act as a catalyst for an expansion of technical co-operation.

This is the reason for the present concentration of the programme on support activities for programming, production, job creation and income distribution, these being the central themes of national economic and social planning backstopped by the Alliance for Production. It is also the reason for supporting the training of high-level professionals for the public sector and for regional programming, which deals not only with human settlements and the growth of various kinds of towns and rural development but also with the interrelationship between rural development and problems of self-sufficiency in food.

The main sectoral objectives described here, such as self-sufficiency in food supplies and the restructuring of industry through the development of capital goods, are founded on global aspects of the economy's behaviour, such as its balance-of-payments situation, the level of employment and the public debt. For the same reason, it is clear that technical co-operation must take into account problems of development and of the dissemination of technologies suited to the country's needs, with emphasis on the effective incorporation of technology into sectoral and regional programming.

This demonstrates the relationship between the medium-term prospects of UNDP technical co-operation programming, as described in this programme, and the longer-term prospects for the development of the country, which must include general policy options such as those which govern the training of professional cadres, the development of alternative sources of energy and town and country planning.

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On the basis of these considerations, major efforts must be made to increase the capacity of technical co-operation to be responsive to development needs, without impairing the internal logic of the technical co-operation programme. For this purpose, specific consultative machinery will have to be available during the execution of the programme as a whole, and the execution of each of the individual projects. Co-ordination measures will also be required on a global programme level, to ensure better use of the available capacity for training local personnel, a flexible exchange of information among the various projects, and the channelling of technical co-operation to priority areas.

With regard to the implementation of the projects, the Government attaches particular importance to the application of the so-called "new dimensions". It should be mentioned that various projects have hired short-term consultants or training instructors. National technology has also been used, especially for technical and economic feasibility studies for industry. The purpose is to extend the application of new dimensions through a case-by-case study, evaluating comparative costs. As regards the international component of the programme, the trend will continue to be to increase the proportion of short-term consultants as against personnel on medium-term contracts.

The programme should achieve flexibility by drawing upon a reserve fund. With the prospect of financial restrictions for some time to come, it is vital to maintain a margin of flexibility in the programme to permit short-term missions to make surveys urgently requested by the Government, and to deal with urgent and unforeseen problems arising from the projects.

# ANNEX I

## AVAILABLE RESOURCES FOR THE PERIOD 1978-1981

(IN UNITED STATES DOLLARS)

| | |
|---|---|
| I.P.F. 1972-1976 . . . . . . . . . . . . . . . . . . . . . | $20 000 000 |
| EXPENDITURE 1972-1976 . . . . . . . . . . . . . . . . . . | 19 621 696 |
| Net balance . . . . . . . . . . . . . . . . . . . . . | 378 304 |
| I.P.F. 1977-1981 . . . . . . . . . . . . . . . . . . . . . | 20 000 000 |
| SUM AVAILABLE FOR 1977-1981 . . . . . . . . . . . . . | 20 378 304 |
| PROGRAMMED EXPENDITURE FOR 1977 . . . . . . . . . . . | 3 475 000 |
| TOTAL AVAILABLE 1978-1981 . . . . . . . . . . . . . . | 16 903 304 |
| FUNDS FROM GOVERNMENT SOURCES . . . . . . . . . . . . | 208 000 |
| TOTAL AVAILABLE FOR PROGRAMMING 1978-1981 . . . . . . | 17 111 304 |

| | | |
|---|---|---|
| a. | Ongoing projects | 1 194 650 |
| b. | New projects | 15 396 992 |
| c. | Unprogrammed reserve | 519 662 |

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Ciro Gamarra
Information and Public Affairs
January 9, 1979

# MEXICO--INFORMATION MEDIA

The Mexican information media comprise one of the largest networks in Latin America and among the developing countries. They include about 616 periodical publications--with an estimated circulation of more than 23 million copies--and a network of 750 radio stations and about 100 television stations commanding audiences of more than 50 million and 20 million respectively.

The press remains the most important medium in the country, but radio is now commanding a wider audience: about 80% of the 64.2 million Mexicans. Television is growing in importance, but it still reaches only about 30% of the population.

The printed media have a long-standing tradition that goes back to the Spanish colony. Since the 17th century, Mexico City has been one of the main cultural centers in Latin America and is still one of the important editorial centers of the region. In 1974, 5,733 books were printed in Mexico.

## The State of the Mexican Press

Although the Mexican print media has lost some ground to radio and television, it still plays an important role in shaping Government and national opinion, even though it is still far from being considered completely free from Government manipulation.

The Mexican press has been traditionally subjected to indirect pressures, Government and public agencies' advertising and the allocation of newsprint (controlled by an state monopoly) being used as editorial leverage. It is also well known that Mexican journalists often receive subsidies or other benefits from Government or private sector. For those reasons, the quality of Mexican press cannot be compared favorably with the press in other Latin American countries --e.g. Brazil, Colombia, or Venezuela.

On the whole the Mexican news media have been very supportive of the Bank and Mr. McNamara. They have given extensive coverage to the World Development Report and the Annual Reports, and also to Mr. McNamara's speeches. Some newspapers like Excelsior, Uno mas Uno or El Nacional (the Government official paper in Mexico City) have printed adverse commentaries in their editorial pages but they have continued giving wide space to straight news stories on the Bank. Their criticism centers upon the Bank's alleged intervention in Mexican internal affairs, unjust loan conditions, support to oppressive regimes, and for being a channel for American imperialism.

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The diversity of the Press

At the end of 1978, 303 daily and 58 non-daily newspapers were being published in Mexico, with a total circulation of 8.7 million copies. About 130 general-interest magazines and 126 specialized magazines, with approximately 14.8 million sales, were also printed in the country. With very few exceptions all the periodicals are published in Spanish.

Mexico City's 11.5 million residents can enjoy 35 newspapers, including 28 dailies, with a total circulation of about 3 million copies a day. Most of the 250 or so consumer and special interest Mexican magazines are also printed in the Federal District of Mexico.

By far the largest newspaper organization in the country is El Sol de Mexico, which in 1976 was acquired by the President Luis Echeverria Alvarez. The Organizacion Editorial Mexicana--as it is called now--is under the direction of Mario Moya Palencia, Echeverria's former Interior Secretary. An active member of the official party PRI (Partido Revolucionario Institucionalizado), Moya is considered a serious contender to the Mexican Presidency in the future.

The El Sol organization owns 45 dailies, including three in Mexico City. They are the morning paper Esto (341,000 copies daily) and the two editions of El Sol de Mexico (145,432 copies in the morning and 95,212 at noon). The aggregate circulation of them is almost 600,000 copies, about 20% of the total number of newspaper copies circulating in the city.

A pictorial sports morning paper, Esto, has the largest single circulation in the country. But the two editions of Ovaciones, an independent sports-oriented daily, surpass it with a total of 431,000 copies every day.

Several other newspapers, with circulations ranging between 240,000 to 270,000 copies, follow them. They are La Prensa (independent tabloid, 269,277 copies); Novedades (conservative, 261,404 copies in two editions), El Universal (conservative, 248,898 copies in two editions), and Excelsior (241,692 in three editions). Other important newspapers in Mexico City are Estadio (3-year old sports morning paper, 200,000 copies), El Heraldo (185,000 copies), and also Diario de Mexico, El Dia, and Uno mas Uno.

Excelsior

Owned since the 1920's by a cooperative of its employees, Excelsior is still the most influential and best known Mexican newspaper. Excelsior's outspoken reputation diminished after the expulsion of former editor, Julio Scherer Garcia, in 1976. Under Scherer's guidance, Excelsior had acquired a reputation of independence against the Government and the business sectors, unusual in the Mexican press.

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Scherer Garcia, editor of Excelsior for 8 years, was suspended on July 8, 1976 by an assembly of cooperative members. About 200 journalists and other employees left the paper with the editor. They accused the Echeverria government of trying to silence criticism. Supporters of Scherer charged that his suspension was backed by the government and was probably authorized by President Echeverria.

The new editors of Excelsior soon assumed a pro-government position but later they began criticizing the administration of President Jose Lopez Portillo, in an effort to regain its image of independence. Now it has a populist, leftist-oriented tendency. It has been critical of the Bank in its editorial pages although it is still very receptive to the Bank's information in the news section.

Scherer Garcia and his colleagues meanwhile established a weekly magazine, Proceso, and a national news service, Comunicacion e Informacion (CISA), in November 1976. Since then, Proceso has become the most important political magazine in Mexico, with a circulation of 70,000 copies a week.

Another group of former Excelsior journalists, headed by Manuel Becerra Acosta, founded the newspaper Uno mas Uno, also with a circulation of about 70,000 copies daily. Uno mas Uno is a nationalist, leftist morning tabloid, very critical of the IMF and the World Bank.

Both Proceso and Uno mas Uno have become outlets for anti-establishment opinions in Mexico. They are very critical of the political and social system, especially of the corruption inside the Government and inside the PRI. They are probably the only truly independent voices in the Mexican media. The other newspapers including, to a certain extent, Excelsior, reflect the positions of the different factions inside the PRI as well as industrial and business interests.

An important economic group headed by the family of businessman Romulo O'Farrill Sr. controls also a large conglomerate of Media organizations, with interests in newspapers, television stations, and editorial enterprises. The group publishes 9 newspapers, including Novedades and his evening edition, Diario de la Tarde, in Mexico City. Novedades Editores also prints The News, an English-language daily with 24,115 copies.

Over 100 other cities and towns have newspapers, the larger state capitals having 4 to 9 titles (Monterrey has a daily circulation of almost 500,000). Most of the provincial press is independently owned, but the number of newspapers becoming part of larger chains is increasing. Among the oldest and most important provincial newspapers are El Dictamen in Veracruz, El Informador in Guadalajara, El Porvenir in Monterrey, El Siglo in Torreon, Diario de Yucatan in Merida, and El Imparcial in Hermosillo. They have circulations ranging from 38,000 to 75,000 copies and they form part of an Editor's association. The newspapers with largest circulation outside Mexico City are Tribuna in Monterrey (95,000 copies) of El Sol chain, and El Norte in Monterrey (82,000) of the Junco de la Vega family.

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Magazines

Among the periodicals, the largest circulations are recorded for popular, general readership and women's magazines, but there are also many well-established specialized publications. Publicaciones Continentales, which publishes 11 consumer magazines, claims to sell about 19 million copies a year. Some of these magazines are also widely distributed in other Latin American countries.

Among the newsmagazines, the sensationalist, crime-oriented weekly Alarma has the largest circulation, with 761,750 copies. Siempre, the traditional political magazine since 1953, has 126,596 copies weekly. Other magazines are Impacto, Hoy, Expansion, Plural (a cultural monthly magazine printed by Excelsior) and Vuelta, also a cultural publication directed by the famous writer Octavio Paz.

News Agencies

The main national news agencies are Informex and Notimex. A private company founded in 1960, Informex has about 200 subscribers, mainly newspapers and radio stations. Notimex, established in 1968, although economically independent, is politically controlled by the Secretaria de Gobernacion, the Mexican Interior Ministry. Both have headquarters in Mexico City. Notimex forms part of the "pool" of official news agencies in the Third World countries.

Since 1976, Scherer's CISA is also providing information services and editorial comentaries to about 20 provincial newspapers, and to two radio stations and one television station in Mexico City.

There are other organizations, like Agencia Informativa Lemus and Agencia Mexicana de Informacion (AMI), that operate at the same time as news service and representation agents for provincial newspapers. Lemus has about 46 subscribers and AMI serves 33 newspapers.

Mexico City also hosts a large core of foreign correspondents, including representatives of the main international news agencies. Mexico's Foreign Press Association includes over one hundred journalists from all over the world, specially correspondents from United States and European newspapers. Among them are Alan Riding of the New York Times and Marlisse Simmons, of the Washington Post. Among the wire services with offices in Mexico City are the Associated Press and United Press International, the Agence France Presse, the Spanish EFE, the Italian ANSA, the Soviet Union's Tass and Novosti, and the Germans DPA and ADN. Reuters, the Japanese Kyodo News Agency, and the Cuban Prensa Latina are also represented.

Radio

Over 95% of the radio transmitters belong to commercial stations privately owned. There are 717 commercial stations operating around the capital and throughout all states of the country. In Mexico City alone there are 50 commercial radio stations. Many of the commercial stations are affiliated to large networks, with headquarters in the Mexican capital.

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The main radio networks are Radiodifusoras Unidas Mexicanas (RUMSA), with 63 affiliates; Radio Programas de Mexico (RPM), with 45 stations; and Radio Cadena Nacional (RCN), with 37 stations. The Sociedad Mexicana de Radio (SOMER) represents 28 radio stations, but also has interest in 6 television stations and two newspapers outside Mexico City. Among the most important commercial stations are XEQ and XEW, La Voz de America Latina, both with national audience. Together with XEX, the most widely listened informative radio, they belong to businessman Emilio Azcarraga, Televisa's President. Radio Red of RPM chain and Radio Mil (head of the Nucleo Radio Mil chain) are also well known for their news programs.

Over 30 cultural stations are operated either by government services or by educational institutions with government assistance. The most important non-commercial station is Radio Mexico, a government-owned station with national audience and with short-wave broadcasting. Other important cultural stations are Radio Universitaria, of the Universidad Nacional Autonoma de Mexico; and Radio Educacion, of the Education Secretary.

Both commercial and cultural stations must make up to 12.5% of their broadcasting available to the Government, as required, for programs of educational, cultural, and civic interest. The programs are prepared by a special service provided by the Direccion General de Radio, Television and Cinematografia (RTC), the government agency responsible for the sector. RTC is under the Secretary of Interior, and is presently headed by Ms. Margarita Lopez Portillo, the President's sister.

## Television

A private monopoly controls most of the commercial stations in Mexico. Telesistema Mexicano operates four commercial networks, each with a main station in Mexico City, and microwave links bringing at least one-channel coverage to most of the main population centers. The four networks include about 80 stations plus 12 retransmitters all over the country. Among the owners of Telesistema are the Novedades' O'Farril family and former President Miguel Aleman's family. In 1972, Telesistema merged with another network, Television Independiente de Mexico, to form the present corporation also known as Televisa.

The Televisa organization operates Channels 2, 4, 5, and 8 in Mexico City. The corporation also has an international network called Univision with 13 affiliated stations in United States--in Texas, California, New York, and Florida. Univision's affiliates carry some direct retransmissions from its home networks aimed at the Spanish-speaking communities in their areas.

Mexico City has another commercial television station, Channel 13, and one cultural station, Channel 11. Channel 13 station is operated by the Corporacion Mexicana de Radio y Television. It broadcasts to several regions of the country through about 12 stations affiliated to a former privately owned network--Telecadena Mexicana--, now financed by the Government.

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A government-owned station, Channel 11, broadcasting only educational and cultural programs, is operated by the Instituto Politecnico Nacional.

The most widely listened news program in the Mexican television is Televisa's 24 Horas. Under the direction of well-known television journalist Jacobo Zabludovsky, 24 Horas is a 1-1/2 hour evening program transmitted in Mexico City by Channel 2 and relayed nation-wide through affiliated stations. Other news programs are En Contacto Directo (Juan Ruiz Healy, Channel 5); and Hoy Mismo (Guillermo Ochoa, Channel 2).

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**World Bank**

**News Service of the Department of Information and Public Affairs**

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- [x] THE NEW YORK TIMES
- [ ] THE WASHINGTON POST
- [ ] THE WALL STREET JOURNAL
- [ ] THE JOURNAL OF COMMERCE
- [ ] THE TIMES
- [ ] THE FINANCIAL TIMES
- [ ] THE GUARDIAN
- [ ]

# The Poverty Of Power

By James Reston

WASHINGTON, Feb. 17—The new President of Mexico, José Lopez Portillo, and President Carter had a useful and amiable visit here over the last few days, but this first state occasion for both of them is a reminder of the poverty of power—of how little even the most influential politicians can do to relieve the basic problems of two such friendly but different neighboring states.

When Mr. Lopez Portillo discussed U.S.-Mexican relations with President Ford a while ago, Mr. Ford ended their meeting by saying this was all very interesting and he hoped the Mexican President would say the same thing to the Ford staff.

Mr. Carter was apparently more attentive and practical. Mr. Lopez Portillo said in an interview at Blair House before he left that "Carter has the gift of seeing the problems of finance, trade, technology and immigration in relation to one another," and Mr. Carter committed himself personally to review the work of the joint U.S.-Mexican study commission and meet regularly to analyze the problems that have divided the two countries.

But even so, these friendly conversations did not get at the brutal facts. For the history of nations is not determined by their leaders, except when they go to war. In general these days history is influenced more by the private actions of millions of people—by the poverty of the human mind and particularly by the fertility of the human body.

This is the basic problem between the United States and Mexico. Messrs. Carter and Lopez Portillo saw it as a common concern of the hemisphere, and not as a conflict between the capitalist and the third worlds, as it was seen by former Mexican President Echeverría.

They agreed on ways to ease it through better terms of trade for Mexico, through credits from the International Monetary Fund and from the World Bank, whose president, Robert McNamara, "filled me with enthusiasm," Mr. Lopez Portillo said. But they cannot really deal with the long-range problems so long as Mexico's population growth outruns its industrial and agricultural production and its ability to produce jobs at living wages for the millions of Mexicans who are entering the United States illegally.

Again this problem was mentioned in the talks between the two Presidents but not really explored. When President Lopez Portillo was born in 1920, the population of Mexico was 14.3 million. It is over 63 million today. It is now increasing by over two million a year compared to the natural increase (births over deaths) of 1.24 million a year in the United States.

Former President Echeverría told me a few months ago that Mexico's population would be 125 to 127 million by the end of the century. President Lopez Portillo questioned this in our conversation, said that over a million Mexican women of child-bearing age were now involved in family-planning programs, and that the population would be nearer to 110 or 120 million by the year 2000.

What the Mexicans do with their population, of course, is none of our business—until they cross the U.S. border. But with no effective social security or unemployment insurance, half the work force unemployed or underemployed and inflation running at about 30 percent, illegal (or to use the polite word "undocumented") Mexicans, according to the U.S. Labor Department, now number about eight million, more than the total number of U.S. unemployed—and Latin American experts at the State Department put the illegal alien figure nearer ten million.

In a country that was prepared to do its own work and pay attention to what's happening to it, this would be a howling political crisis, but it's only recently that the politicians have begun to realize that in the last year the aliens entering the United States, most of them illegally, probably outnumbered the natural increase of our own population.

The two Presidents didn't go into this, and the members of Congress were too polite to mention it, but the idea is getting around on Capitol Hill that the time has come for a fundamental reform, after almost a quarter of a century, of the immigration laws —for a review of documents, and for criminal penalties against employers who hire illegal aliens at unfair wages.

This problem is getting beyond the control of Presidents. It is a primary concern of the unemployed and the unions and the Congress of the United States. I asked President Lopez Portillo whether he noticed a little sign on President Carter's desk in the Oval Office:

"O God, thy sea is so great and my boat is so small."

No, he said, but it was true: All Presidents could do was to try to guide the boat. "It is not a matter of the effort of one man alone," Mr. Lopez Portillo said in his inaugural address, "but a feat we must all achieve together."

Still, the two Presidents didn't really get down to the illegal invasion from the south or the economic aggression from the north. We were just trying to get to know one another, he said. Maybe next time.

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# World Bank Airs Developing World Report

*By ROBERTO MENA*

The World Bank Tuesday published the *World Development Report, 1978* — the first of a series of annual reports by World Bank staff on the progress and prospects of the developing countries.

With its statistical appendix, "World Development Indicators," the report deals with some of the major development issues and problems and explores the underlying trends in the international economy.

The World Bank's intention to initiate the series of reports was announced last September by Robert S. McNamara, president of the World Bank, when he addressed the annual meeting of the Board of Governors in Washington. He noted that a number of political leaders in both developed and developing countries had recommended such a review.

McNamara also saw the *World Development Report* as supplementing the work of the Independent Commission on International Development Issues (the Brandt Commission). In addition, the initial report will be submitted to the meeting next Sept. 23 of the joint World Bank-IMF Development Committee.

McNamara says in the foreword to the report: "Whatever the uncertainties of the future, governments have to act. They are faced with the necessity of daily decisions. And hence the quality of the information, and the range of available choices on which those decisions will have to be made, become critically important. That is why we have undertaken this analysis."

The report stresses the fact that the progress made by developing countries so far has not been sufficient to reduce the number of people living in absolute poverty — without access to the basic necessities of a productive life. The economic difficulties of the industrialized countries and the prevailing atmosphere of uncertainty about the growth of international trade and the future movements of capital suggest that it will be more difficult for the developing countries to expand their economies in the coming decade than it has been in the past 25 years.

Even to maintain their present rates of progress, developing countries will need larger inflows of foreign capital, while undertaking vigorous efforts to withstand the growth of protectionist barriers to their exports and to stimulate the productivity of their agriculture.

The report notes that the measures that policy makers in developing countries can effectively implement are influenced by conditions in the world economy, most importantly by the markets for their exports.

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Recent developments affecting their export prospects are noticeably adverse. They include the restrictive new quotas introduced as part of the newly negotiated Multi-fiber Arrangement, new limits on imports of footwear and electronic products by industrialized countries, and growing demands for protection in a wide range of other industries. The prospects for the growth of developing countries' export earnings now appear much less favorable for the next decade than for the last two.

The importance of links between the industrialized and developing countries should be recognized, the report says. Of the industrial countries' 550 billion dollars worth of exports in 1975, a quarter went to the developing countries, while the corresponding proportion of manufactured exports was 30 per cent. The dependence of developing country export markets was greater than this average for the manufacturing industries in the United States (34 per cent) and Japan (45 per cent).

Further, the report notes the "tremendous difference in the magnitudes of manufactures trade in both directions." Exports of manufactures from industrialized to developing nations were worth about 123 billion dollars in 1975. The reverse flow reached only 26 billion.

Future capital flows to developing countries are also the subject of uncertainty, the report states. The last few years' extremely rapid growth of commercial lending to these countries has raised some problems. The concentration of lending in a small number of countries has made lenders sensitive to developments there.

To Be Continued

J. 1417
-78)

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- [x] THE WASHINGTON POST
- [ ] THE WALL STREET JOURNAL
- [ ] THE JOURNAL OF COMMERCE
- [ ] THE CHRISTIAN SCIENCE MONITOR
- [ ]

George W. Grayson

# Oil-Rich Mexico: The New Saudi Arabia?

Can Mexico supplant Saudi Arabia as the principal energy supplier of the United States—or, at least, diminish the influence of that Croesus-rich monarchy?

For an increasing number of observers, the answer is "yes." Their optimism springs from the vertiginous growth in Mexico's oil wealth. Three years ago Petróleos Mexicanos (PEMEX), the state oil monopoly, reported holdings of 5.8 billion barrels. Since then the figure has been revised annually, most recently on Sept. 1 when President José López Portillo announced "proven" reserves of 20 billion barrels and "possible" reserves of 200 billion barrels.

The prospect of vast hydrocarbon deposits to the south has aroused tremendous interest. So vigorously has Ambassador Patrick J. Lucey pumped for closer bilateral cooperation on energy that one high-level U.S. official recently complained that "Mexico has two envoys to this country: theirs and ours." The ambassador is especially anxious that the Departments of Energy and State facilitate the purchase of large quantities of natural gas that PEMEX would—if the price is right—ship to the Texas border through an 800-mile pipeline now under construction.

*The writer is a professor of government at the College of William and Mary.*

Lawrence Goldmuntz, a Washington energy consultant, has argued that a major boost in exports from Mexico, which doesn't belong to OPEC, could swell the glut on world oil markets. This, in turn, might spur OPEC to fix production quotas for its members—a move that has triggered cheating by greedy participants and the subsequent collapse of other cartels. Mexican shipments, he contends, could help drive down prices as much as $4 per barrel and save the United States $12 billion annually.

Ironically, friends of Israel who excoriated Mexico's vote for a 1975 "Zionism is racism" resolution in the United Nations now see in that country's black gold an opportunity to reshape American foreign policy. Most outspoken has been The New Republic, which has charged the U.S. government with concealing PEMEX's oil wealth from the American people and Congress as part of an energy plan premised on both scarcity and "nuzzling the Arabs." The magazine advocates an "extra-special relationship" with Mexico to offset the "special relationship" with the Saudis.

Similarly, the Near East Report has emphasized the "destabilizing forces"—corruption, mismanagement, divisions within the royal family and army, etc.—that make King Khalid's regime an unpredictable ally. It points out that, should war erupt, Mexico's proximity and political stability would be invaluable assets.

Despite all the conjecture and fanfare, Mexico is at least a decade away from playing ball in Saudi Arabia's league. It may possess two or even three times the 20 billion barrels of proven reserves. But the 200 billion figure that López Portillo and American journalists so nimbly toss about is highly speculative and will remain so until scientifically verified. Production, now 1.4 million barrels per day (mbd), will reach 2.25 mbd by 1980 and possibly 4 mbd by the mid-1980s—while U.S. imports are running above 8 mbd.

The Saudis—blessed with extremely low production costs, seven times the proven reserves, and one-tenth as many people as Mexico—have cut back output from 9 mbd to 7.2 mbd because of abundant world supplies. Pressure-maintenance projects will raise their capacity to 14 mbd, almost all of which could be exported.

Saudi Arabia's ability to increase or decrease output as the situation demands enables it to play a "balancing" role that keeps OPEC in business. Thus, it has the preponderant voice in setting the world price of petroleum and the currency in which this price will be denominated (now dollars).

The Mexicans have repeatedly spurned an economic attack on OPEC. PEMEX charges Americans the OPEC price. Furthermore, the things that López Portillo might do to accelerate exports even more—grant franchises to the "Seven Sisters," lay an oil pipeline to the Texas border, parallel to the gas main, impose stringent consumption controls on his citizens, flare additional gas, purge the venal Oil Workers Union—are politically impossible.

In view of the limited absorptive capacity of Mexico's economy, a strong surge in oil revenues could also trigger sharp price increases in the early 1980s, just before the next presidential election.

Even if the United States renounced its special relationship with Saudi Arabia—a move fraught with political and economic uncertainties—its allies would remain beholden to the Arabs and OPEC until new energy sources become available. They would expect the United States to share oil in the event their supplies were interdicted.

This country should not exchange dependence on the Saudis for dependence on Mexico. Such a step could hamper an assertive border policy that will soon be necessary lest the current flood of illegal immigrants becomes a tidal wave. Increased purchases of oil and gas from our southern neighbor should be coordinated with a determined effort on its part to create jobs.

The national interest dictates serious conservation measures combined with the development of new energy supplies. At the same time, Washington must diversify, not concentrate, its hydrocarbon imports.

Thursday, November 16, 1978 The Washington Star

# Mexico Flexing Oil Muscle in Shift in Policy

By Bernard Diederich
Time-Life News Service

MEXICO CITY — "The Mexicans are finding oil as fast as they can drill holes," says an American expert who watches Mexico's oil exploration closely.

Mexico this week capped its recent policy of trumpeting its oil potential with an announcement that it has discovered an oil field with potential reserves of 100 billion barrels. That's nearly as much as the total oil potential that Mexico estimated it had just two months ago.

In the past, information on discoveries was closely held. And some observers speculated that the timing of the announcement carried a message to the U.S. government.

Relations between the two nations have been strained because of disputes over the sale of natural gas, the status of illegal Mexican workers in the United States and the proposed construction of a huge fence — dubbed "The Tortilla Curtain" — along portions of the U.S.-Mexican border to keep the illegals at home.

On Monday, the day after the announcement of the discovery of more oil by Jorge Diaz Serrano, director of Mexico's government petroleum monopoly, Petroleos Mexicanos (Pemex), Mexico said that President Carter would make his first official visit to Mexico Feb. 14-16. The Mexicans said that Carter and President Jose Lopez Portillo would discuss "important matters."

**THE PEMEX** director stressed in his announcement, made in Mexico and repeated a day later in Chicago, that Mexico's oil potential makes for an economically strong nation and compels it to "examine its goals and problems under a new light."

"But I believe," he said, "that in spite of the risks involved, it is far more desirable to confront the problems generated by wealth than those stemming from poverty. At Pemex we are looking for and finding deposits that will be used by generations of Mexicans through the 21st century. We already have more than enough for our needs in this century."

Under former President Luis Echeverria, the nationalistic attitude about oil was to keep quiet about it. Mexico under Echeverria was much involved in Third World politics and did not want to be in a position of refusing to join OPEC. Many assumed that was the real reason for not touting the country's oil potential.

There is little likelihood of Mexico joining OPEC. The government here does not wish to sacrifice trade benefits and the general system of preference with the United States. At present, Mexico sells 86 percent of its oil exports to the United States at $13.10 a barrel, which is above the OPEC price, and the United States benefits because of low transportation costs.

**PEMEX'S DIAZ SERRANO** said in his announcements this week that a new oil field with potential reserves of 100 billion barrels of oil and 40 trillion cubic feet of natural gas had been discovered near Tampico.

Diaz Serrano said that the new field, known as Chicontepec, covers an area about 72 miles long and 17 miles wide in the eastern states of Tamaulipas and Veracruz.

Under Echeverria, when the Reforma and Samaria fields in Tabasco-Chiapas states were brought into production two years after they were discovered in 1972, some cynics brushed off foreign speculation about the presence of great oil in Mexico as wishful thinking.

Yet the Reforma and Samaria fields last year accounted for 79 percent of Mexico's total crude production of 1.4 million barrels daily. There is no skepticism now in the ranks of foreign experts here concerning the new discovery.

Since the Reforma and Samaria fields were bought in, and Mexico ceased to import crude and become a net exporter in 1975, Pemex has located a field in the Gulf of Mexico off Campeche, where 10 platforms are being constructed. This offshore field is expected to begin producing next year and is expected to reach production of at least 280,000 barrels a day by 1982.

**DIAZ SERRANO** notes that bringing the oil out of the newly discovered Chicontepec field will not be easy. Because of the non-porous rock in this field, Pemex will have to drill as many as 16,000 wells, more than the state-owned monopoly has drilled in its entire 40-year history.

In his September state of the nation speech, Lopez Portillo said that proven Mexican reserves were 20 billion barrels (65 percent crude and the rest gas) and that probable reserves had climbed from 31 to 37 billion barrels with potential reserves up from 120 billion barrels to 200 billion barrels.

Pemex officials now say that the new discovery of oil, which they describe as "viscous and heavy," will significantly increase potential reserves — probably to 250 billion barrels.

With Iran partially shut down by civil strife, Mexico has been receiving new offers of business, according to a knowledgeable source. But Pemex is said to be uninterested in satisfying temporary customers.

Among customers who will take Mexican crude until 1980 are Guatemala, Spain, Costa Rica, Colombia, Ecuador, Peru, Brazil, Israel, Britain and Sweden. In Japan last month, Lopez Portillo signed an agreement to test Mexican crude in Japanese refineries, which could lead to a long-term agreement.

**EVEN MEXICO IS** surprised at the amount of its potential oil reserves. Pemex itself underestimated its resources and oil has been found so fast that production targets originally set for 1982 are being moved up.

Part of the Pemex investment program (approximately $20 billion for the five-year program, 1977-1982) has been to increase the production of crude oil and condensates from one million barrels a day in 1977 to 2.2 million barrels a day in 1982. Pemex officials now believe that this goal will be achieved by 1980 and that by the same year Mexico may be able to increase its oil exports from the current level of 300,000 barrels a day to more than a million barrels a day.

Said Lopez Portillo recently, "In my political campaign, I urged recognition that we have oil reserves, a fact that was confirmed during the first months of my administration. I had, in this, the possibility to show both Mexicans and foreigners that Mexico was not a bankrupt nation — that it had men who know how to work, men who are capable of presenting their problems and of solving them with resources, and men who are capable of maintaining political and economic independence without hostility or exclusion."

**BUT, HE CONTINUED,** "What has oil meant to us? The reserves grew so quickly that we were led by necessity to ponder the impact surplus oil was going to generate in the balance of trade of our own economy and in our own society.

"It meant, in short, the first, great opportunity for Mexico to be financially self-determining. It also meant the serious risk that this entails. Oil is a product that is consumed — by itself, it does not earn income. If we do not take advantage of the opportunity that petroleum offers us, we run the grave risk of canceling out the opportunity for development.

". . . We have before us 20 or 30 years to organize our country in such a way that we will enter the next century as a society with full employment. We can have this, or national failure — this, or the humiliating condemnation of seeing a nation of illegal workers.

"We seek," he says, "to organize our society in the coming years so that it generates planning that utilizes a great deal of manpower, financed by the oil reserves that we will calculate so that they will permit us to exploit the other natural and human resources that we have and that now cannot be utilized because we are in the financial trap of under development."

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Monday, November 20, 1978 The Washington Star

# Mexico's big-time oil

Mexico has given much official confirmation in recent days to reports of oil finds that would place it in the big league of the world's producers. In fact, our neighbors to the south could be sitting on the greatest of all petroleum reserves, surpassing even Saudi Arabia's.

The new status of Mexico among future oil giants has seemed to sneak up on the rest of us. So quiet has the process been that it lends credence to the view that one brand of Mexican nationalism has long worked to keep the lid on such heady public estimates, to hold down foreign pressures for development of the country's resources.

There have previously been speculative articles about discoveries of Saudi-sized deposits among Mexico's already-respectable oil holdings, and President Jose Lopez Portillo has been much more expansive on the subject than his predecesor, Luis Echeverria. The data now emerging from the state oil company, Petroleos Mexicanos (Pemex), tell us that Mexico's potential reserves, if proven, could be 300 billion barrels, eclipsing Saudi Arabia's 150 billion. (U.S. reserves are put at 31 billion barrels, the Soviet Union's at 78 billion.)

Last week's news involved 100 billion barrels that Pemex officials think are in a large oil field along the Gulf Coast. To give an idea of how quickly Mexico's importance in the world's oil picture has been changing, Pemex put Mexico's "proved" reserves at 20 billion barrels last July 31, with an additional 37 billion barrels of "probable" reserves. Such figures, though substantial, pale beside what some experts (and now Mexico's own technicians) say are the real dimensions of Mexican oil riches.

There are intriguing implications in all this, for Mexico, the United States and the rest of the world.

Mexico has the opportunity — and President Lopez Portillo sounds ready to seize it — to use its oil wealth for the most serious effort yet to bring its economy into the 20th (and the 21st) Century. It will take years, of course, to build up actual oil production and facilities for using and shipping great new quantities. But instead of just spawning a hopelessly growing and massively unemployed population, Mexico could use oil earnings to finance large-scale development of its industrial potential and a prosperous life for its people. The president puts the possibilities this way: "We have before us 20 or 30 years to organize our country in such a way that we will enter the next century as a society with full employment. We can have this, or national failure — this, or the humiliating condemnation of seeing a nation of illegal workers."

This is an exciting prospect for underemployed Mexico — and for the United States, which has been used to regarding its southerly border as the bothersome source of illegal immigration by job-hungry people. Is it possible that the flow will be dried up some year soon by the labor demands of a booming Mexican economy? Or that some new fences might be needed on the other side of the Rio Grande?

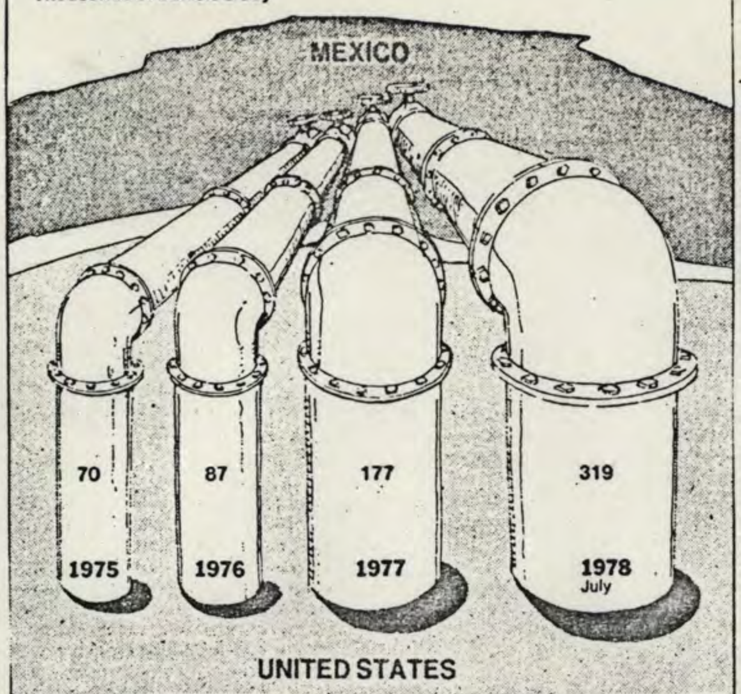
American energy policy, such as it is, has not yet worked into its calculations the emerging reality of Mexico as a petroleum giant. Perhaps there was no urgency to do so while the energy bill was pending in Congress and no pretexts for complacency were desired. U.S. imports of Mexican oil and gas have been relatively modest (Mexico just drew even with its own needs and became a net exporter in 1975), but this picture is bound to change.

Mexico is not a member of the Organization of Petroleum Exporting Countries (OPEC), the international cartel that has driven up prices since late 1973, and is not now of a mind to join. The U.S. currently buys 86 per cent of Mexico's oil exports at slightly more than the OPEC price, but benefits from smaller transportation costs. The United States undoubtedly will be a close collaborator in Mexico's economic development plans, and the countries provide natural and growing markets for each other. A more equal economic relationship will make for a less strained friendship between the North American neighbors.

It could help the world's oil consumers generally for Mexico and its huge reserves to remain out of OPEC, weakening slightly the cartel's control of prices. Whether this is in the cards or not, Mexico's augmented oil wealth — bolstering the planet's exhaustible supplies — is good news for everyone. Mexican oil will be there when some of the lesser reserves run out. In the meantime, the cartelists will have to be a shade more careful.

## United States Imports of Mexican Oil

Thousands of barrels a day




Source: Central Intelligence Agency

Richard Temperio

# Mexico Oil Stressed In U.S. Energy Plans

By RICHARD HALLORAN

Special to The New York Times

WASHINGTON, Nov. 28 — Quietly, Mexican oil has begun to figure prominently in the energy calculations of United States officials, especially as they project the nation's consumer, industrial and strategic needs into the long-term future.

Within the last two years, oil production in Mexico has doubled. Exports of Mexican oil to the United States, while still relatively small, have nearly quadrupled. And estimates of Mexico's "possible" oil reserves, a very rough measure, have leapt enough to prompt speculation that Mexico may conceivably be the world's richest source of oil, surpassing even Saudi Arabia in its long-term potential.

The Carter Administration has not called much attention to those developments for several reasons, even though officials say that American intelligence began tracking Mexico's oil potential three or four years ago. For one thing, Administration officials now privately concede that they let the Mexican potential go unpublicized because calling attention to it would have undercut the urgency of the President's "moral equivalent of war" in the energy crisis.

Further, Mexican leaders themselves have kept quiet until recently because of internal political differences. American officials say that intelligence officers feared that disclosing the information would jeopardize their informants and embarrass Mexican leaders.

Finally, American intelligence may well have underestimated Mexican oil resources. Intelligence documents from four years ago, while reporting significant discoveries of oil, gave much lower estimates than those of recent months

Three years ago, the estimate of Mexico's possible oil reserves stood at 30 billion barrels. By the beginning of this year, it was up to 120 billion. In September, President José López Portillo raised it to 200 billion. Most recently, the director general of Pemex, the national oil company, Jorge Diaz Serrano, pushed it up toward 300 billion.

According to American intelligence estimates, Mexico has 50 billion barrels of "proven" reserves and 157 billion barrels of probable reserves, with the rest "possible." The latest intelligence estimate of Mexico's proven reserves — the most conservative yardstick, which includes only oil deposits of known quantity and known to be economically recoverable — is roughly three times the figure published early this year by The Oil and Gas Journal, an industry publication.

Mexican oil production is 1.5 million barrels a day now and is projected to rise to four to five million barrels a day within two to three years. Of current production, 320,000 barrels a day are imported into the United States to provide 5.3 percent of American imported oil. Saudi Arabia provides 16.5 percent of the oil imported here and Nigeria, 15.2 percent. Imports contribute about 40 percent of American oil consumption.

A Presidential Review Memorandum has taken this into account as officials here have drafted proposals for a new policy toward Mexico. President Carter reportedly will decide on the framework of that policy before he goes to Mexico City on a visit scheduled for February.

Officials here said that Pemex was capable of developing Mexican oil resources and that, whatever technology or equipment the national oil company needed, it could buy with its adequate financial resources.

Pemex, for instance, obtained a $1 billion loan last spring from a consortium of American, Japanese and British banks led by the Bank of America and the Manufacturers Hanover International Banking Corporation. Officials here said that Mexican oil had become eminently "bankable," and that Pemex should have no trouble in obtaining future financing.

Mexico will obviously retain large portions of the oil for Mexican use and has indicated that it prefers to export more refined product than crude, thus making more profit for itself. The United States is Mexico's most promising market, being the closest and thirstiest. But Mexican officials have already started talking with French and Japanese officials about exports to them.

In their latest assessment, American officials interviewed here said they thought the consequences of the Mexican oil development would include the following:

¶Mexican oil production will probably increase fast enough to ease the shortages of supply expected in the mid-1980's. But officials here maintain that the increase will not be enough to eliminate those shortages.

¶In the longer run, the prospects for Mexican oil have put off the projected "doomsday" of declining world oil supplies well into the 21st century. In order of magnitude only, if Mexico's estimated "possible" reserves of 300 billion barrels actually materialize, that alone could supply the United States for more than 40 years at current levels of consumption.

¶The increasing volume of Mexican oil in world markets will tend to restrain price increases. But no official here foresees a Mexican attempt to undercut prices set by the Organization of Petroleum Exporting Countries, as that would not be in Mexico's interest. Mexico is not a member of OPEC and has given no sign of joining.

¶The purchase of Mexican oil by the United States will have little effect on the drain in the balance of trade, as that will constitute the same outflow as to an Arab or any other oil producer. But Mexican purchases of American goods, reflecting Mexico's increased buying power, will help offset the dollar outflow.

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# MEXICO

## OCEANS OF OIL

The recent discovery of another vast oil field in Mexico, this time in the northeast of the country, has sent a spasm of euphoria shuddering through official and business circles alike. According to the government, the Chicontepec oil field raises "potential" reserves to above 200 billion barrels. But before the existence of the Chicontepec field was announced, many officials had been putting "potential" reserves at about 200 billion barrels anyway, so it seems clear that they had been taken into account.

The Mexicans have traditionally been very cagy about the size of their oil resources, deliberately underestimating them in order to keep greedy foreigners at bay. The revelation that they were in fact very large indeed, perhaps large enough to put Mexico right up in the Saudi Arabia class, came when the economy was sliding into a major crisis, and served to restore foreign confidence in Mexico's future as nothing else could have.

In Mexico the presence of huge quantities of oil — and nobody thinks these latest revelations will be the last — has done much to bolster faith in the country's ability to overcome its huge problems. But in many minds it has led to a wilful understimation of these problems that cou'd be dangerous. Although the oil wealth possessed by the country is a mighty source of comfort, and shou'd prevent it from total economic collapse in the near future — and a collapse looked frighteningly possible at the end of 1976 — it is not in itself enough to guarantee as prosperous a future as many Mexicans imagine.

The total value of 200 billion barrels of oil, at U.S.$ 10 a barrel, comes to U.S.$ 2 trillion dollars, which is less than the current annual gross national product of the United States. But Mexico is unlikely to get as much as U.S.$ 10 a barrel from its oil — there is the cost of repaying loans for investment in the oil industry, as well as actual extraction costs, and once the oil has been sold it is gone for ever. It is not known how much of Mexico's oil can be extracted at a commercial price.

The Mexican population is now somewhere above 65 million, but it is expected to grow to about 130 million by the end of the century and to continue growing rapidly for some decades after that. This means that a sum far smaller than the U.S. gross national product in one year will be injected, over a time-span of perhaps 50 or more years, into an economy which will have to support a population that could in half a century or so be as large as that of the U.S. today. In other words, although the petrodollar bonanza is the single biggest factor in the Mexican economic mix right now, it will not make Mexicans as rich as many of them seem to think. It may not, indeed, be enough to guarantee the 10 percent a year growth, without any balance of payments prob'ems, that the National Patrimony Secretary José Andrés Oteyza, said was now on the cards. According to Oteyza, the "financial self-sufficiency" that the oil will bring about will allow the country's "normal" growth rate to rise from 6.5 percent to 10 percent. The 6.5 percent rate was attained throughout the 1960s and early seventies, but in the last few years the growth rate has been very much smaller because of the country's poor economic condition. Oteyza also claimed that the new growth rate would absorb the people arriving on the job market and also eliminate "latent" unemployment by the nineties. This also looks unlikely, given the enormous needs of the Mexican unemployed, who now constitute between a third and a half of the labour force, and whose absolute number could grow very steeply indeed in the next few years. Far more prosperous economies than Mexico's are finding job-creating is very difficult indeed, yet their jobless are far more familiar with the industrialized world, and often have technical qualifications that Mexico's unemployed conspicuously lack.

The need to provide millions of new jobs in the years to come is not just a major economic and social challenge to the Mexican authorities, it is a major foreign-policy problem too. The endless migration of jobless, unskilled Mexican workers and their families to the United States has caused a great deal of misunderstanding between the two countries. Just how many illegal Mexican migrants are at present in the U.S. is unknown, but some estimates go as high as 10 million, an astonishing figure. Efforts to slow down the flow by building fences along the border have, inevitably if unfairly, led to indignant outbursts in Mexico, and although this policy will be continued the U.S. will attempt to be as discreet as it possibly can in order not to offend Mexican susceptibilities. With Mexico now admittedly one of the world's major oil reservoirs, this is a matter of considerable importance. Illegal migration, and oil relations, will be among the principal themes that will be discussed by President Jimmy Carter and his hosts when the U.S. president visits Mexico in February.

The U.S. recently suspended the deportations en masse of migrants that had been frequent in recent years, to the pleasure of the Mexican authorities, who took it as a "positive" sign of a change in the U.S. approach. The move was thought to have been a present to make Carter's visit go off a bit better. The solution to the problem must ultimately come from Mexico itself, and although the Mexican government recognizes this it has simply been unable to provide the necessary inducements to keep its landless, unemployed peasants at home. There remains, however, the suspicion that the Mexican government is not really very unhappy to see the already large Mexican minority in the U.S. continue to grow because this gives it a powerful weapon with which to influence the policies of its powerful and rich neighbor. In some states of the U.S. the "chicanos," most of whom retain lively loyalties toward Mexico, could one day outnumber English-speaking citizens, thus leading to a situation in which political problems could become explosive indeed.

Another Mexican lever against the U.S. is, of course, its enormous oil wealth. Since the U.S. has allowed itself to become dependent on imported oil supplies, it has had to treat the governments of its suppliers with marked deference, in contrast to the cavalier treatment of other governments which while being no better than those of the oil countries are certainly no worse. With one of the world's biggest oil countries on its southern border, it will clearly have to tailor its policies to suit Mexican demands — or at least some of them — in future. Most Mexicans may be paupers, but the country is by Third World standards quite rich. Sources close to the Mexican government are being less and less diplomatic about the intention of that government to use its oil power as much as possible.

One effect of the announced discoveries in the Chicontepec field could be to induce the Mexican government to raise its oil production target. Under the present plans, output is to be limited to 2.2 million barrels a day by 1982 — a level virtually identical to that of the Venezuelan target today. But if the country's oil reserves really are as enormous as claimed, then there is no need why such a low ceiling should be maintained. Even if production was raised to Saudi Arabian levels of 8 million b/d or so, there would be enough for a century, and probably longer if many new discoveries are made, as would seem inevitable. The dramatic announcement of the new finds could, in fact, have been intended partly to enable the government, against the denunciations of nationalists, to raise a production ceiling that now looks unreasonably low. Mexico, with a foreign debt in the region of U.S.$ 40 billion, could certainly use the money from increased oil sales.

The Mexican oil industry is run by the State oil monopoly, Petróleos Mexicanos (Pemex), which is noted for its bureaucratic inefficiency and well-padded payrolls. The existence of vast deposits of oil, ample foreign credits, and a tradition of strident nationalism where oil is concerned, will not induce it to mend its ways. The fact that the country's main source of future income is firmly in the hands of the State will mean moreover that the Mexican economy, which is already well under the thumb of the government, will be even more State-dominated than has been the case up to now. This means that the money will be used for immediately distributionist pursposes rather than concentrated in eventually more productive investments. It also means that much of the economy will receive, in effect, a steady subsidy that could enable it to resist making the changes that seemed absolutely essential two years ago. Unless this is combatted, the massive oil finds could help improve the lives of many millions of people, but to a far lesser extent than if they had flowed into a more efficient and better managed economy.

Los Angeles Times Mon., Dec. 11, 1978

# Mexico Could Take Some Lessons From Iran

## Vast Oil Reserves Hold Hope for Economic Growth but Problems Are Formidable

BY ERNEST CONINE

If the revolutionary unrest that's shaking Iran is not disturbing the sleep of Mexico's ruling establishment—and of policymakers in this country, for that matter—it ought to be.

The situations in Mexico and Iran obviously are not identical. Mexico is more advanced industrially. It is not spending billions of dollars on military hardware. And it has been run by a "revolutionary" party supposedly dedicated to economic and social justice for the last half-century.

You don't have to be an expert, however, to figure out that sudden oil wealth could trigger the same kind of revolutionary ferment in Mexico that is now visible in Iran—and for many of the same reasons. If that happens the effects will be felt, perhaps painfully, on this side of the border, too.

There is no longer much question that Mexico is on the way to becoming one of the world's oil superpowers.

Its proven reserves of petroleum are now estimated officially at 20 billion barrels and its "probable reserves" at 37 billion barrels. But there is a growing belief that the country's total oil reserves may be as high as 150 billion or 200 billion barrels—a figure that would put Mexico in the same league with Saudi Arabia.

With oil selling for more than $13 a barrel, that means the Mexican people are sitting atop a treasure trove that will soon be producing billions of dollars in revenues per year.

Among thoughtful Americans there is a natural tendency to hope that these enormous oil riches will accelerate the economic development of Mexico, creating enough jobs in the process to stem the tide of illegal immigrants into the United States. President José Lopez Portillo has made it plain that he shares these hopes.

The closer you look at the realities of the situation, however, the more you are forced to the conclusion that, unless the Mexican government pulls off a miracle, this happy scenario is very unlikely to come true sometime soon.

The oil money should open up enormous new opportunities, of course. But Mexico is not another Kuwait, where a small population means that oil wealth can translate into instant affluence for everyone. It is a nation of 64 million people with an enormous backlog of poverty to overcome.

Despite the vaguely leftist rhetoric of its political leaders, the maldistribution of wealth in Mexico is among the worst in the world. A handful of people have great fortunes. There is a large middle class in the big cities. But the great majority of Mexicans live in abject poverty.

A third of the people are undernourished. The 45% of the population that still lives in the countryside earns only 6% of the national income. Almost half the work force is either unemployed, or subsists on part-time jobs or such marginal occupations as shining shoes and selling trinkets on the streets.

With one of the highest birthrates in the world, Mexico must produce some 800,000 new jobs a year just to keep the existing situation from becoming worse. Even in years when the Mexican economy has enjoyed a 7% growth rate, it has never produced anything close to that many jobs, much less the larger number that would be required to make a dent in the existing pool of unemployed.

*Ernest Conine is a Times editorial writer.*

Those who do have jobs earn, on the average, seven to eight times less than their counterparts in the United States.

Under these circumstances it is no wonder that Mexican officials have come to look upon the large-scale movement of illegal immigrants into the United States as a necessary safety valve—or, to quote several Mexican participants at a Brookings conference last June, as an irresistible "force of nature."

Americans cannot be expected to share that view. They would like to think that the big oil revenues, by providing billions of dollars in investment capital, will change the situation. The Mexican government hopes so, too.

But there are formidable problems.

Mexican agriculture, on the whole, is so deplorably inefficient that the bill for food imports will eat up a sizable portion of oil revenues unless something is done. Steps to make farming more efficient will soak up a lot of investment money and will tend to force still more peasants off the land and into the overcrowded cities—or across the border into the United States.

Many in this growing army of unfortunates can no doubt be usefully employed in public works projects. But in the long run the answer obviously is to create more jobs in industry.

Lopez Portillo has publicly recognized the need for investing in labor-intensive industries in order to cut unemployment. For the next few years, however, Mexico must reinvest a large portion of its oil bonanza in the petroleum industry itself, which needs relatively little labor.

Obviously, the government should invest as quickly and as heavily as possible in industries where the payoff in terms of new jobs is better. But even if this is done, many experts find it hard to see how unemployment can be reduced to noncrisis proportions much before the end of this century.

This, if true, surely spells trouble.

The old adage, "Them that has, gits," is even more true in Mexico than in most other places. Just as in Iran, a disproportionate amount of the oil money is likely to flow into the pockets of the rich. Mexicans with education or skills will undoubtedly benefit, too, from the boom produced by big investment programs.

For many millions of poor Mexicans, however, the oil boom is likely to mean nothing but greater awareness and resentment of their own misery.

Already there are signs of growing unrest. In the first three months of this year alone, there were 427 strikes. In several cases work stoppages were put down by the army. The Catholic Church is still mostly conservative, but church sources say more and more priests are being radicalized by what they see as indifference by the government and the wealthy classes to the plight of the poor.

Considering the apparently huge size of Mexico's oil wealth, the country should have a bright future in the long run. But in the years just ahead the ruling establishment may be sitting on a time bomb very much like that which has exploded under the Shah of Iran.

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**World Bank**
**News Service of the Department of Information and Public Affairs**

This news item appeared on page 1 of the 15 DEC. 1978 issue of:

☐ THE NEW YORK TIMES ☐ THE WALL STREET JOURNAL ☐ THE CHRISTIAN SCIENCE MONITOR
■ THE WASHINGTON POST ☐ THE JOURNAL OF COMMERCE ☐

# U.S. Study Eyes Better Ties With Oil-Rich Mexico

By J. P. Smith
Washington Post Staff Writer

A National Security Council draft study describes Mexico as "the most promising new source" of oil in the 1980s and suggests that the president consider a serious upgrading in that country's priority among U.S. foreign policy interests.

The memorandum, designated as Presidential Review Memorandum (PRM) 41, says the United States could view Mexico as a world-scale partner and accord it significant concessions on winter export of farm products as well as quotas for legal immigration of workers to the United States. A copy of the draft was obtained yesterday by The Washington Post.

Yet another option outlined in the draft would be for Washington to maintain its traditional view of Mexico as an "emerging power" in the Third World.

Last week President Carter said PRM-41 could serve as the basis for his impending negotiations in February in Mexico City with President Jose Lopez Portillo.

"For the United States, Mexico represents a major new energy source, presently outside OPEC [Organization of Petroleum Exporting Countries]. Mexico could fill 30 percent of U.S. import needs by the mid-1980s, thus enhancing security of supply, and more than compensating for the decline of Venezuelan and Canadian supplies," the draft study asserts.

More important, however, the outcome of PRM-41 (as the classified study is known within the foreign policy bureaucracy) could shape a new generation of U.S.-Mexican relations.

A draft of the Mexico PRM sets forth these possible results that could come from a redirection of Washington's policy toward Mexico:

- It could provide an alternative to increased dependence on Arab oil, and access to some of what the CIA estimates could be as much as 10 million barrels of Mexican oil production a day by 1990.
- It could result in a sanctioned program for Mexican aliens now immigrating illegally to the United States at the rate of hundreds of thousands a year; a proposal that many U.S. labor leaders view as nothing short of chilling.
- It could result in lowering tariff and other trade barriers to Mexican exports, such as vegetables and textiles, that are vigorously opposed by politically powerful U.S. business interests.
- And it could result in the creation of a special negotiator for Mexican affairs reporting directly to the president or Secretary of State Cyrus R. Vance, that at the least would touch off regional political jealousies.

At the same time the United States could do nothing about any of these and, as a draft of the PRM says, "follow general U.S. foreign policy directions without according Mexico special or preferential status."

Carter has yet to make a choice, though senior administration officials say he has taken a keen personal interest in PRM-41

Last week at a breakfast meeting with reporters in the White House's State Dining Room, Carter said, "I consider our relationships with Mexico to be as important as any other that we have, and my relationship with President Lopez Portillo has been very good."

Washington observers are long accustomed to Carter's effusive good will and praise about any country or head of state. What is different about Mexico, however, is that senior administration officials say in private that by all indications Carter attaches a high priority to Mexico's emerging oil prowess and to turning around the suspicions and ill will that have marked relations between the two countries over the last 40 years. (Carter, one also is reminded, has been taking private Spanish lessons since moving into the White House.)

Elsewhere in the administration the Mexico PRM has been the focus of Cabinet-level haggling, and the bureaucratic territorial battles that mark any potential major foreign policy switch.

Energy Secretary James R. Schlesinger Jr. was reproved in a sharply worded letter last Nov. 8, from National Security Council head Zbigniew Brzezinski last month for trying to end-run the council's PRM process by going directly to the president or negotiating directly with Mexico's national oil company.

And within the State Department, there has been cordial competition between Latin American policymakers who favor an open-handed approach towards Mexico, and State's energy experts who favored a hard-nosed posture until recently on energy negotiations with Mexico.

The Labor and Justice Departments, which both have an institutional interest in stemming the flow of Mexican illegal aliens into the U.S. labor market, were briefly at odds with a State Department-favored proposal for an official U.S. program to allow Mexicans to immigrate to the United States.

While the details have yet to be worked out, and the final PRM-41 document has not gone to the president, the outlines of the administration's options were agreed upon at a Cabinet-level meeting last week held in the Situation Room in the basement of the White House's West Wing.

The PRM begins with a statement that Mexico is emerging as "an economic power of strategic value to the United States," adding that Mexico clearly could produce as much oil as Saudi Arabia, the world's leading exporter, does today.

CONTINUED

It goes on to say that there are four major issues that need to be addressed: energy, trade, migration, and relations affecting the communities strung along both sides of the 1,950-mile U.S.-Mexico border.

Among the obstacles to improving relations between the two countries, the PRM notes, is that "important elements in both societies regard the other with suspicion and even fear." These include Mexican fears that the United States will exploit its resources, especially oil and gas, and U.S. fears that illegal Mexican immigration will swell domestic labor markets as the economy appears headed toward a slowdown.

The PRM says that "influence, leverage, and bargaining potential—once overwhelmingly in favor of the United States—are shifting somewhat in Mexico's direction."

As for the goal of U.S.-Mexican relations, the draft PRM says the United States should press for "a stable, humane, and cooperative Mexico."

It is Mexico's growing oil power, however, that is at the heart of the policy evaluation. The first priority of Carter's February visit to Mexico will be to unsnarl embarrassing loose ends from a natural gas sale, approved by Mexican President Lopez Portillo, that was killed last year by Energy Secretary Schlesinger.

If the United States adopts a posture essentially treating Mexico as "an emerging power," the draft PRM says that U.S. interest in Mexican oil and gas would be seen "in global rather than U.S. security terms," a position which Schlesinger has continued to argue privately.

If the United States adopts a posture treating Mexico as "a partner" sharing advantages equally, the PRM suggests that a North American community, including Canada, could eventually evolve. This also would imply increased Mexican energy production, without any loss of Mexico's national sovereignty.

The rationale for a carefully stitched Mexico policy, the draft PRM says, is that "while there is little danger that—unless we attempt to seal the border—Mexico will become overtly hostile, the cumulative impact of unmanaged tension could end the conditions that have enabled the United States to discount Mexico's nearness" in favor of some other part of the world community.

The PRM argues in part for completing the natural gas negotiations aborted last year, saying that "this now appears reasonable on opportunity cost grounds, and would reinforce higher Mexican oil production and exports."

Schlesinger has continued to express private reservations about signing the gas deal, which would increase domestic gas supplies by about 4 per cent. If the United States buys Mexican gas, Schlesinger argues, gas from the proposed Alaskan gas pipeline through Canada would become less competitive and could threaten completion of the pipeline.

One set of estimates, offered outside of the PRM, projects that the cost of Mexican gas would be about \$4.20 per thousand cubic feet by 1985, while Alaskan gas would cost from \$1.50 to \$2 more. Last year, however, Schlesinger moved to kill the gas deal because the Mexicans' price—which would have been indexed to oil product prices—was higher than what the administration would give the domestic industry.

Carter has said that he wants to try to resolve the gas impasse, although the draft PRM suggests that one option would be to forgo negotiations with Mexico on gas.

As for the long term, the draft PRM says that "trade-offs such as barter agreements or explicit concessions in other areas would be very difficult to negotiate and implement." So far, however, this has been the path Mexico has followed with other nations.

**World Bank**
**News Service of the Department of Information and Public Affairs**

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- [x] THE NEW YORK TIMES
- [ ] THE WALL STREET JOURNAL
- [ ] THE CHRISTIAN SCIENCE MONITOR
- [ ] THE WASHINGTON POST
- [ ] THE JOURNAL OF COMMERCE
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# Mexico Will Limit Oil Output

## Curb on New Finds Dampens Hopes in U.S.

By ALAN RIDING

Special to The New York Times

MEXICO CITY, Jan. 5 — Just days after Mexico's official estimate of "proved" oil reserves was doubled to 40 billion barrels, President José López Portillo has warned that oil production here will not be increased beyond the country's ability to "digest" the resulting income.

His statement comes as something of a dampener to widespread speculation in the United States that Mexico could be exporting as much as four or five million barrels of oil a day to the United States by the mid-1980's.

It also reflects Mexico's deep awareness of the financial, economic and even political problems suffered by some major oil producers such as Iran, whose current turmoil stems in part from an inflation built by a rapid expansion of revenue.

President López Portillo said that Mexico's oil production should be determined by the pace of domestic development rather than by the size of its reserves or the pressure of foreign demand.

**Inflation Feared**

"If at a given moment we were to open up our valves and export oil to the limits of the demand of a thirsty world, we wouldn't have anything to do with the money we would receive," he told reporters yesterday. "We would then inflate our economy in the worst possible way — through congestion."

"The capacity for monetary digestion is like that of the human body," he said. "You can't eat more than you can digest or else you become ill. It's the same with the economy."

Mexico's daily production of crude oil and liquid gas recently exceeded 1.5 million barrels for the first time in history, with one-third destined for export. By late 1980, however, the state oil monopoly, Pemex, plans to reach a "production platform" of 2,258,000 barrels a day and maintain this level for at least two years. Exports should then be running at a million barrels a day, earning the country an annual income of more than $5 billion.

President López Portillo said that the United States would remain the principal purchaser of Mexico oil — at present, 80 percent goes to the United States — but stressed that Pemex would continue trying to diversify its export markets. Smaller quantities of oil have been sold to Israel, Brazil, France and Japan.

**Controversy Over Gas**

The Mexican President also reiterated that at present Pemex had no natural gas available for export to the United States, a remark that undermined reports that President Carter and President López Portillo might work out a new gas accord when they meet here next month.

In 1977, six American gas distribution companies contracted with Pemex for the delivery by pipeline at the Texas border of as much as 2.2 billion cubic feet a day of natural gas. But Washington vetoed the proposed sales price of $2.60 per thousand cubic feet, angering Mexico and prompting the Government to cancel plans to take the new pipeline as far as the United States border. Instead, Mexican industry is being adapted to use natural gas instead of oil as its principal fuel.

"The gas that we had offered to the United States can no longer be sold for the simple reason that we'll be using it domestically," Mr López Portillo said. "It's no longer available for export." He added, however, that natural gas not needed by domestic industry could eventually be exported.

The Government's seemingly conservative management of its oil and gas export policies contrasts dramatically with its rocketing reserve figures and its frequent new finds. "Proved" oil reserves, just six billion barrels in November 1976, were raised to 40 billion barrels last weekend. "Probable" reserves now stand at an additional 44.6 billion barrels and "potential" reserves at a total of 200 billion barrels.

Although 70 percent of production comes from the southeastern fields of Chiapas and Tabasco, the latest rise in "proved" reserves appears in Chicontepec in the Gulf Coast region and offshore in the area of Campeche. When the Chicontepec strike was announced two months ago, Pemex estimated that it contained 100 billion barrels of oil, although it later said that perhaps only 20 or 30 percent was recoverable with present techniques.

**Ironies Cited**

With interest and excitement increasingly being stirred by the oil finds, two ironies are seen: The Government is still not receiving dramatic benefits from its oil wealth and, despite having perhaps the largest oil reserves in the world after Saudi Arabia, it is apparently resisting becoming a large-scale exporter of crude.

In his review of the state of the economy yesterday, Mr López Portillo warned that 1979 would still be "a risky year" for Mexico, with inflationary pressures still strong and significant oil revenues not expected until next year. He neverthless felt that the economy had recovered well from its crisis in 1976 when the Mexican peso was devalued for the first time since 1954.

The gross national product, which grew by about 2 percent in 1976 and 1977, rose by 6 percent last year and is expected to expand by 6.5 percent in 1979.

Mr. López Portillo said that oil would give Mexico "financial self-determination," with the additional revenue to be channeled through a National Employment Fund aimed at creating millions of jobs and stimulating industrial expansion. This fund is expected to begin in late 1979.

But he again cautioned about the dangers of excessive production. "We will not increase oil output more than the planned growth of our economy permits," he said. "We will establish a growth rate of 7 or 8 percent and fix oil production levels in relation to this. But we can't just say: 'Good, we have oil. Now let's sell it madly.'"

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# FOOD IS CHALLENGE FOR MEXICAN REGIME

## Nation Aiming for Self-Sufficiency —Oil Profits Seen as Lever for Attaining Diet Needs

By ALAN RIDING
Special to The New York Times

MEXICO CITY, Jan. 8 — With its long-term energy needs already satisfied by vast new oil finds, Mexico has now set for itself the challenging goal of achieving self-sufficiency in food.

In the eyes of top Mexican officials, oil and food are closely related. Not only will the coming oil boom make chronic malnutrition and rural poverty politically explosive issues, but also the country may find its oil earnings increasingly spent on imports of food rather than heavy machinery and advanced technology.

President José López Portillo has therefore established energy and food as the twin priorities of his administration. On energy he has been lucky, with oil discoveries tripling proven reserves in two years and oil exports expected to earn $3.6 billion in 1979. But in agriculture, in the President's words, "the problems are more entrenched and production more complex."

As a first step, the Agriculture Ministry's budget for 1979 has been increased by 60 percent to about $2 billion, while private banks are being encouraged to step up credit to the countryside. Yet officials concede that the outlook is not promising.

### Millions Without Land

What makes the food issue so complicated is that production is inextricably linked to the system of land tenure established after the 1910 revolution. To satisfy the peasant revolutionaries' demand for "land and liberty," hundreds of thousands of tiny and inefficient plots were handed out by successive Governments to landless peons. The policy brought relative peace to the countryside, but it was disastrous economically.

Today, with the country's population five times larger than it was in 1910, four million peasants are still without a plot of land. But there is no spare land left to distribute and, during the last decade, peasant unrest has resulted in large numbers of illegal occupations of private farms.

With the tiny plots unable to provide for the five or more children that most peasant couples have, there has been a growing exodus from the countryside, either to nearby cities or to the United States. But hundreds of thousands of young peasants remain in rural areas, working the land and living off the promises of successive Governments that one day their turn for land will come.

President López Portillo has faced this problem squarely by announcing that the answer lies in increased productivity and not in handouts of land. "Many plots produce only a bare subsistence," he said in his state of the union address in September. "Land itself is no longer a source of wealth if it is not supplied with the elements that make it rich and productive."

### Trade Surplus in Agriculture

One sector of Mexican agriculture, centered in the northwestern states of Sinaloa and Sonora, operates efficiently, with wealthy private farmers producing fruit and winter vegetables for export to the United States. Along with exports of meat, coffee and cotton, this accounted for Mexico's $600 million trade surplus in agricultural products in 1977.

The Government's search for self-sufficiency is therefore essentially aimed at the corn, beans and wheat that make up the diets of most Mexicans and that are produced here almost exclusively by peasant farmers. In 1978, Mexico imported two million tons of corn and 780,000 tons of wheat. Grain imports in 1979 are expected to cost the country more than $900 million.

Yet, given the structure of Mexico's agricultural sector, it is difficult to see how even large Government investment can turn plots of one or two acres into economically viable units. Between 1970 and 1976, under President Luis Echeverria Alvarez, vast funds were poured into the countryside, yet production still grew more slowly than the population.

Soon after taking office, the López Portillo administration began promoting "collectivization" of land parcels, known as ejidos, so that the farmers could obtain credit and acquire machinery. But, because of the Mexican peasant's deep attachment to his own piece of land, the program has faltered. To "collectivize" by force, on the other hand, would be politically hazardous.

### Rural Industry Emphasized

Recognizing that farming could never fully employ all the peasants, who still account for 48 percent of the country's 66 million inhabitants, the Government has begun emphasizing rural factories that it hopes will add value to agricultural products at the source and create new employment in the countryside.

But this strategy runs up against a serious marketing problem. Already Mexico's exports of fruit and winter vegetables struggle with complex requirements set by the United States to protect the farmers of Florida and southern California. On the other hand, Western Europe is fully supplied by the Mediterranean region.

While the Government continues to pursue its objective of food self-sufficiency, many senior officials are privately resigning themselves to a pattern of oil revenues paying for imports of basic grains. "For years, we've been trying to increase agricultural production without changing the system of land tenure," an official said. "We're still not willing to break the ejido system, so we'll have to continue paying that price"

While export crops maintain an agricultural trade surplus and oil revenues pour in, the Government can easily afford imports of basic grains expected to exceed $1 billion a year by the early 1980's. But this strategy condemns millions of peasants to poverty, underemployment and malnutrition. And the only escape route will remain that to the cities or, as illegal aliens, to the United States.

In the long run, though, Mexico's new oil wealth should result in thousands of new jobs in urban areas. Estimates also show that, by the year 2000, only 20 percent of Mexicans will be living in the countryside. Yet, with a population of at least 120 million by then, there will still be 25 million impoverished peasants.

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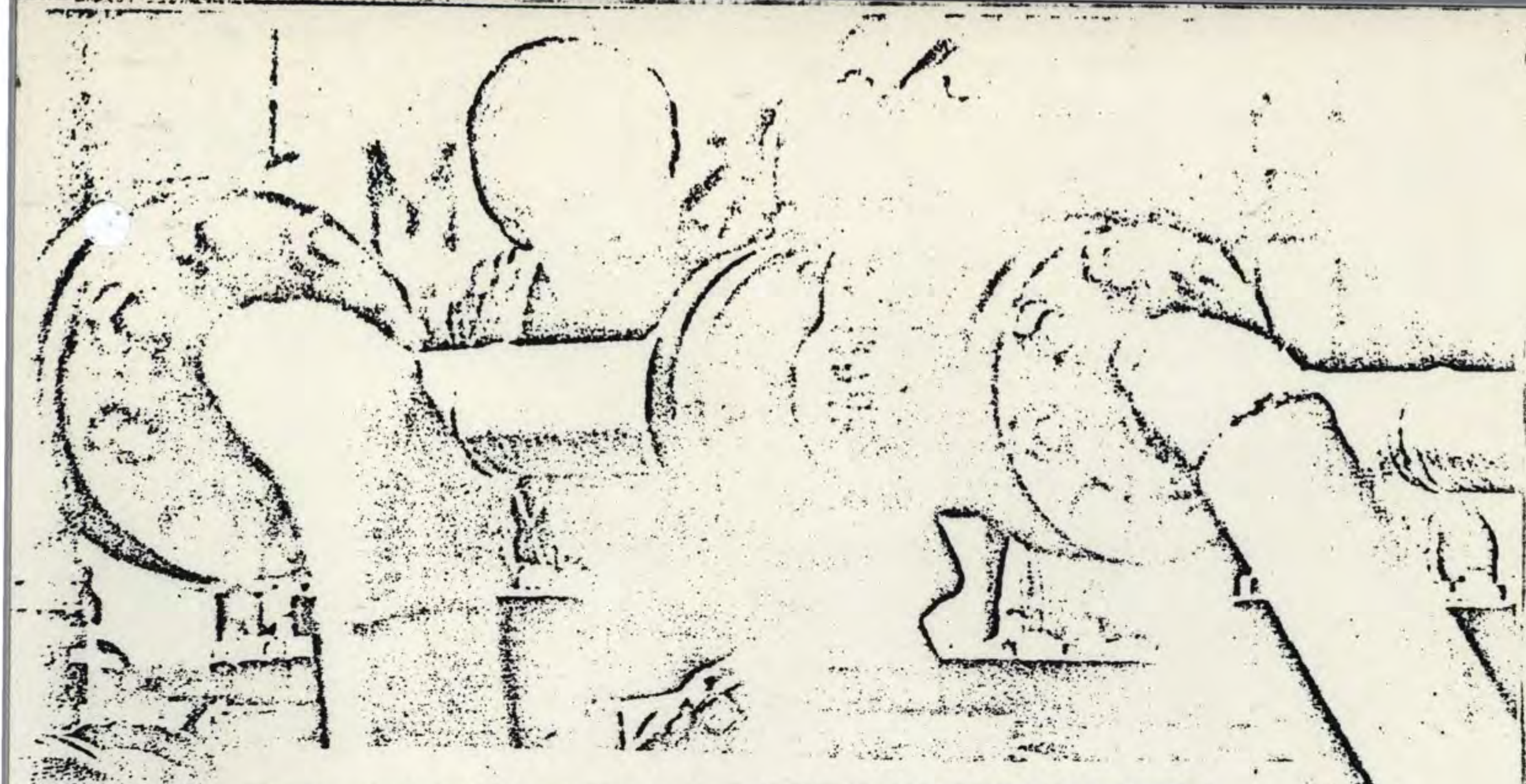
64 INTERNATIONAL REPORT
**Mexico's reluctant oil boom**

The government intends to keep oil development tightly reined and production levels much lower than U. S. policymakers had hoped. The goal: balanced growth that would help alleviate chronic unemployment and rural poverty and avoid the stresses of rapid change that have afflicted other oil-rich nations. So far the government has successfully encouraged private investment, U. S. companies are increasingly active in moving south, and the expanding Mexican economy promises to be a big market for U. S. goods

**Cover:** Airbrush rendering by Stanislaw Fernandes of an ancient Olmec stone head, from the jungles of southeastern Mexico, topped by an oilman's hard hat



# MEXICO'S RELUCTANT OIL BOOM

**INTERNATIONAL REPORT**

**Mexico, traditionally an orphan of U. S. foreign policy, has suddenly moved close to the top of Washington's agenda. The reasons are basically economic.**

Mexico's oil bonanza is beginning to fuel a strong business upsurge south of the border. The expanding Mexican economy promises to provide a big and growing market for U. S. goods and services, and it is attracting new investments by U. S. companies, from PepsiCo and Celanese to General Motors. Prospects for future economic growth were further brightened at yearend by the announcement by Petróleos Mexicanos (Pemex), the government oil monopoly, that proven oil reserves have climbed to 26 billion bbl., double its previous estimate.

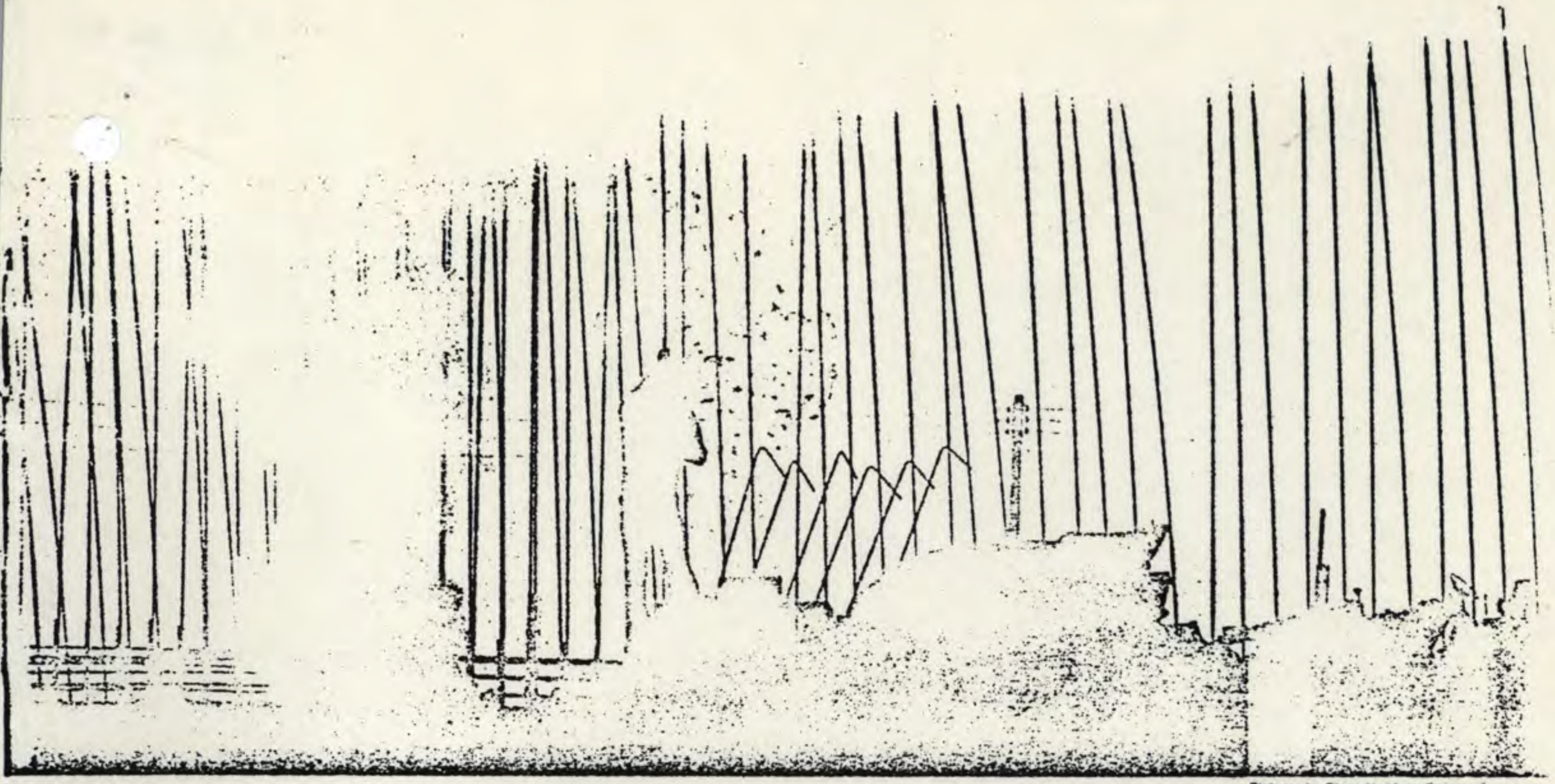
But U. S. energy planners, politicians, and pundits who have been banking on an outpouring of Mexican oil as a solution to this country's energy problems are in for a rude awakening. President José López Portillo and key advisers intend to keep a close rein on oil development, fearful that an unbridled boom could produce severe inflationary strains and economic distortions of the kind that are wracking member nations of the Organization of Petroleum Exporting Countries (OPEC). Oil strategy must "avoid deforming our total productive structure," López Portillo warned in his state of the nation message last September. The upheaval in Iran, since then, has given further warning of the social and political risks that Mexicans will run if they mismanage their oil windfall.

Accordingly, López Portillo has set a production target of 2.25 million bbl. per day by the end of 1980 (compared with an average 1.5 million last month), including 1.1 million bbl. per day for exports. The sales abroad, along with probable gas exports, should bring in nearly $8 billion in annual foreign currency earnings in 1980 and $11 billion annually by 1983, enough to service Mexico's $22 billion long-term foreign public debt and pay for expanded imports of capital goods and industrial raw materials as the Mexican economy grows (charts, pages 66 and 67). A sharp upturn in Mexican private investment last year, spurred by the oil prospects, and major government investments in industry and infrastructure should push Mexico's gross national product up from its brisk 6% growth rate last year to 8% annually in the early 1980s. But pouring still more oil money into the Mexican economy in an attempt to make it grow even faster could give a sharp upward thrust to inflation, currently running at 17%. "We are walking the ridge of the mountain," López Portillo says. "[We want] neither recession nor excesses that would nullify our solid prospects for development."

López Portillo rejects the alternatives of producing oil in order to pile up dollars in overseas bank accounts and other investments, as Saudi Arabia has done, or to prepay Mexico's foreign debt, or to pay for massive imports of consumer goods. The latter course would create employment in other countries instead of Mexico, where more jobs are desperately needed. So it seems unlikely that López Portillo will continue to push for rapid increases in oil production after reaching the 1980 target. And if he achieves steady economic growth with moderate inflation during his single six-year term, which ends in 1982, his cautious management of the oil boom could set the pattern for his successor.

### The U. S. stake

Such an approach would upset the calculations of U. S. policymakers. Energy Secretary James R. Schlesinger, for example, recently predicted that Mexico could be producing 4 million to 5 million bbl. per day of oil by 1985. Energy analysts in the Central Intelligence Agency recently suggested, in a policy review memorandum drafted by Administration agencies for President Carter's



Pictures by Steve Northup/Camera 5

## A tight rein on development to promote balanced growth

trip to Mexico City next month, that Mexico could produce 10 million bbl. per day by 1990. Such a torrent of Mexican oil would substantially reduce the West's dependence on uncertain Middle East oil supplies, controlled by the OPEC cartel.

For the U. S., in particular, Mexican oil would be a boon because it can be delivered through relatively short, overland pipelines or through shipping lanes controlled by the Navy. And replacement of oil imports from the Middle East with Mexican crude would give a big lift to the sagging U. S. trade balance, because Mexico buys three-fifths of its imports from the U. S. By contrast, Middle Eastern countries spend most of their petrodollars in Europe and Japan.

Such prospects make Mexico a potentially vital link in U. S. economic strategy. The high priority now given by the Carter Administration to relations with Mexico is underlined by the National Security Council study, called Presidential Review Memorandum 41, which sets out U. S. policy options in dealing with Mexico. Some Administration advisers reportedly are suggesting that Carter should urge López Portillo to raise Mexico's oil production goals. In return, according to this scenario, he could offer trade concessions on products that Mexico exports to the U. S., ranging from tomatoes to textiles and, prospectively, petrochemicals. More controversial is a suggestion that Carter could offer to ease restrictions on entry of Mexican job seekers who have been pouring into the U. S., driven by high unemployment in Mexico.

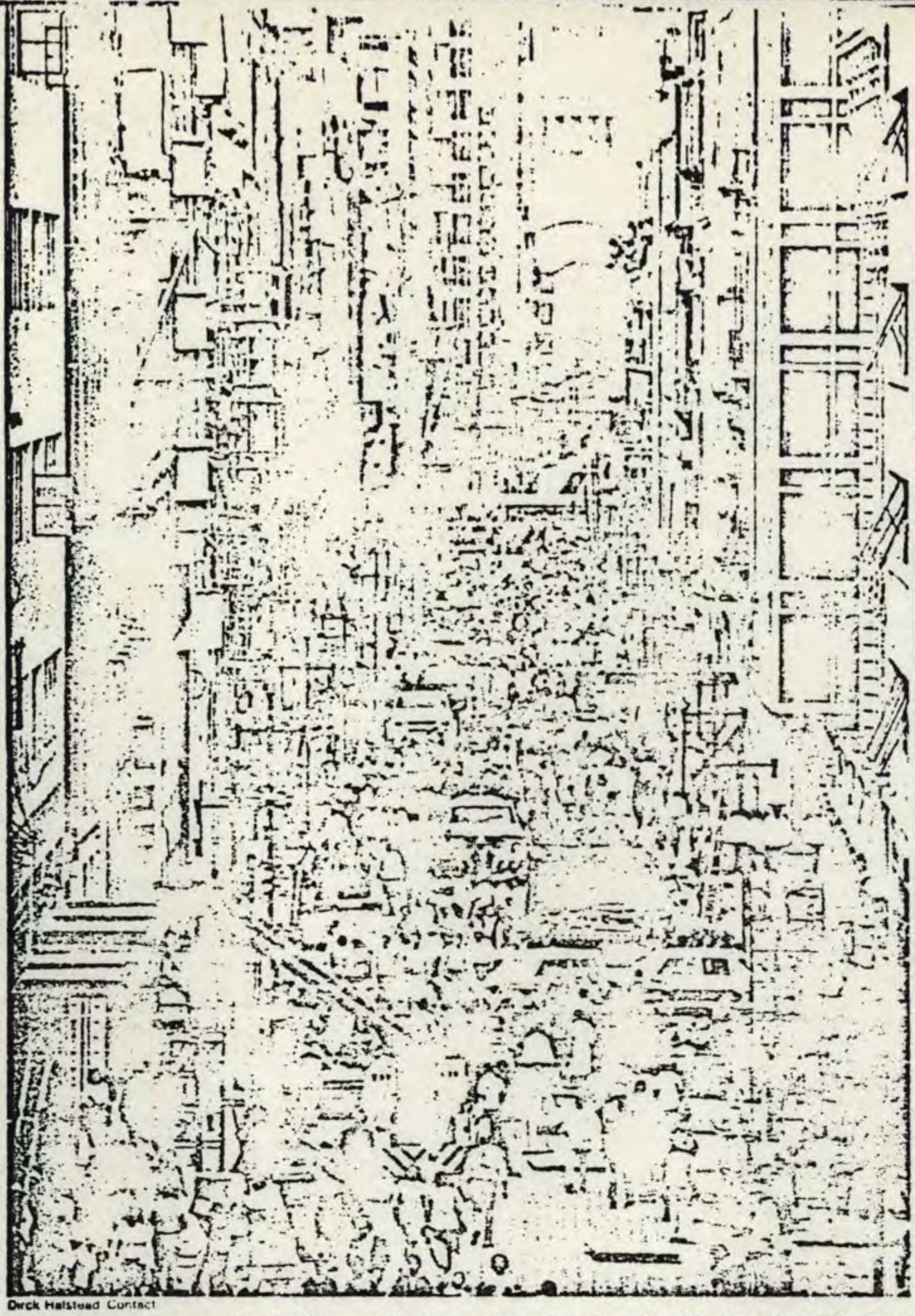
Such proposed "linkages" of oil with other issues could backfire, though, by stirring opposition on both sides of the border. Mexicans, intensely nationalistic about petroleum since they expropriated the oilfields from U. S. and British companies in 1938, are resentful of any hints of outside pressure and wary of becoming too dependent on the U. S. On the U. S. side, farmers are concerned about competition from Mexican agricultural products, and labor unions fear competition from cheap immigrant labor. Just last month, a House special committee on population called for tighter border controls against illegal Mexican immigrants.

### Unresolved tensions

More important, against the U. S. interest in getting more Mexican oil, Carter will have to weigh an even greater U. S. stake in Mexico's long-term stability. U. S. efforts to encourage maximum oil output rather than balanced economic development would be self-defeating if they resulted in rising social and political tensions. "It is not in our interest to demand a rate of extraction that would create inflation in Mexico," says Patrick J. Lucey, the U. S. ambassador in Mexico City. "It is not in our interest to try to get Mexico up to a production of 4 or 5 million bbl. a day if their own interests are better served by 2.2 million bbl. a day."

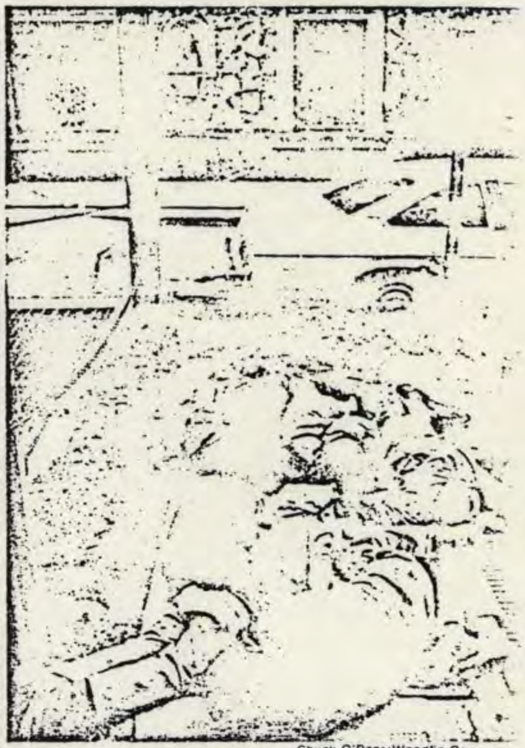
The issue is crucial because, for the first time, the U. S. faces the prospect of having a major country on its southern border. Mexico's demographic growth of 3.2% annually is still one of the world's highest despite the government's family planning program. Population will nearly double from more than 60 million at present to around 120 million by the year 2000 and continue to increase at a rapid pace for decades after that. Even Mexican officials agree that the country will face a political explosion if it fails to ease the extremes of wealth and poverty, particularly by providing more jobs for the 800,000 entrants into the labor force each year. Only the escape valve of emigration to the U. S. prevents unemployment, currently around 19%, from going even higher (chart, page 68).

The years just ahead are critical for Mexico because the underlying social tensions that erupted during the administration of former President Luis



Dirck Halstead Contact

Mexico City: Poor rural refugees swell its population to 13 million. Waifs (below) sleep on a warm grating.



Chuck O'Rear/Woodfin Camp

Echeverria Alvarez, in the form of labor agitation and land invasions by farmers, are still unresolved. For the time being, such unrest is being kept in check by López Portillo's conciliatory style and by the stabilizing influence of the ruling Institutional Revolutionary Party (PRI), which has a corrupt but highly effective grass-roots organization that reaches into every village and a sponge-like capacity for absorbing political rivals or simply buying them off. What businessmen worry about, longer term, is López Portillo's successor, who will be picked by back-room bargaining among the business, labor, and agrarian factions and ideological groups that make up the PRI. This process could produce, as it has in the past, a swing back to the left under a President who would attempt to build a populist following among workers and farmers, as Echeverria did. Further ahead, the PRI itself may have trouble in holding together the disparate coalition that has maintained its monopoly of power in Mexico for 50 years.

Faced with these prospects, it is doubtful that López Portillo would alter his basic economic strategy to help slake the U. S. thirst for oil, even though Mexico almost certainly has reserves big enough to do so in fields such as the vast Reforma pool beneath the tropical swamps of Tabasco and Chiapas, the newly discovered Chicontepec field south of Tampico, and the offshore Cantarel field that Pemex is developing in the Gulf of Mexico (map, page 70). Proven reserves of hydrocarbons, both oil and natural gas, amount to 40 billion bbl., according to Pemex, which estimates potential reserves at 200 billion. Of the total, oil accounts for 65%, or 130 billion bbl. The Antonio J. Bermúdez field in Tabasco, described by Pemex Director General Jorge Diaz Serrano as "supergigantic," itself has proven reserves of 7 billion bbl., nearly as big as those of Alaska's North Slope, and it is still being enlarged. Pemex has also discovered a huge dry gas basin around Monclova in northern Mexico.

Eventually, many observers believe, Mexico will prove enough reserves to put it in a class with major Middle East producers, although comparisons with Saudi Arabia, now frequently made, are highly speculative. The Saudis have 166 billion bbl. of proven reserves but have not released estimates of their potential.

Mexico's oil finds have attracted offers from U. S. companies proposing to sell filling stations and other facilities in the U. S. to Pemex, but Diaz Serrano says the company has no intention of investing abroad at present. And a German group has reportedly offered to develop and manage an oilfield and build a refinery and petrochemical plant in return for a long-term crude supply. But Pemex, having operated for 40 years as a medium-size integrated oil company, should have no great difficulty in developing its discoveries, although it is likely to suffer some growing pains. Diaz Serrano, a businessman who is regarded as a good manager, had long experience in the oil industry before joining Pemex, as a founder of several Mexican contract drilling companies and, earlier, of Galveston's Golden Lane Drilling Co.

A flock of Mexican construction companies also is pushing completion, scheduled for next March, of a 48-in., 800-mi. natural gas pipeline from Cactus, Tabasco, to a point 75 mi. south of Reynosa on the U. S. border. Originally, six U. S. companies had planned to take delivery at the border of 2 billion cu. ft. per day of gas, worth \$1.9 billion annually at \$2.60 per 1,000 cu. ft. Energy Secretary Schlesinger vetoed the deal because the price was above the \$2.18 paid to Canadian suppliers. Mexico now plans to use the gas internally by connecting the Cactus line to distribution grids at Monterrey to fuel electric power plants and other industries. But it is unlikely that Mexico will be able to use all the gas that flows from wells along with the oil, and most observers believe that Carter and López Portillo will be able to agree on future U. S. purchases of Mexico's surplus.

### Solving the unemployment problem

Just how much oil and gas Pemex produces will depend on the outcome of behind-the-scenes debate within the López Portillo administration and the PRI over Mexico's basic economic strategy. The problem is that oil, a capital-intensive industry, employs relatively few workers. Thus, Pemex has just 80,000 employees on its payroll. To create jobs, Mexico plans to invest much of the oil money in industry, agriculture, and tourism, but it will risk overheating its economy—as Middle Eastern countries and Venezuela have learned—if spending becomes too heavy. By pricing Mexico's products and services, such as tourism, out of world markets, the resulting inflation could dangerously worsen the country's critical unemployment problem.

Unlike most OPEC countries, Mexico has a diversified, partly industrialized economy, and its potentially big internal market should be able to absorb sizable investments. In the 1950s and 1960s, Mexico was able to expand its gross national product at a fast 6½% annual pace with little inflation. But Mexico has only half recovered from a severe bout of inflation brought on in the early 1970s by free-spending former President Echeverría. Last year prices rose 17%, down from a peak of 34% in mid-1977, but Wharton Econometric Forecasting Associates, affiliated with the University of Pennsylvania, projects inflation running at 12.5% in 1982 even if oil output is held to around 2.5 million bbl.

The leading advocate of faster economic expansion, despite this problem, is José Andrés de Oteyza, 36, the Cambridge-educated National Properties & Industrial Development Secretary, who was a key political campaign aide to López Portillo. "The challenge we face is to raise our growth rate to 9% or 10% for a period of 10 years," de Oteyza says. "Then there will be a reasonable prospect of solving the unemployment problem by the 1990s." He adds: "Before then, it will not be possible to solve it." To combine more rapid growth with lower inflation, de Oteyza argues, Mexico must remove supply bottlenecks in critical sectors of the economy by investing heavily in such activities as transport, electricity, and agriculture.

Proponents of a more cautious approach include Secretary of Programming & Budget Ricardo García Sainz, Treasury Secretary David Ibarra Muñoz, and Gustavo Romero Kolbeck, the director general of the Bank of Mexico. Right now, according to Treasury Under Secretary Miguel de la Madrid Hurtado, government agencies are trying to reach agreement on a growth target. "The general strategy is to regain the long-term growth rate of around 6½% in 1979 and 1980, and to try to improve this in 1980 and 1981," says de la Madrid, who is a Harvard MBA. "We are trying to get a steady rate of growth compatible with a diminishing rate of inflation."

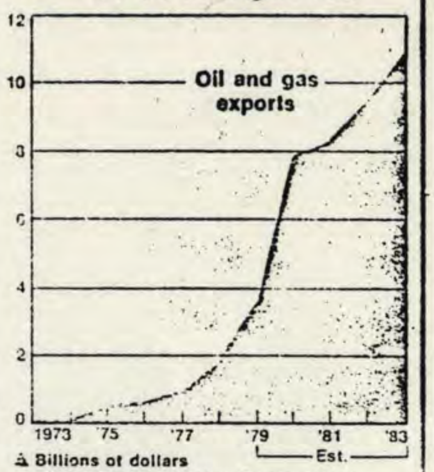
Up to now, Mexico has been constrained by a November, 1976, agreement with the International Monetary Fund to limit net foreign borrowing to \$3 billion annually for three years and to curb the government deficit and expansion of the money supply, in return for credits that the IMF advanced during the devaluation crisis. Fast-growth advocates such as Ifigenia Navarrete, a PRI congresswoman and economist who heads the Chamber of Deputies' planning commission, clearly hope for a more expansionist policy after the IMF agreement expires. "Most market economy nations are like fish caught in the monetarists' net," she says. "We have reduced the growth of the foreign debt, but at what price? At the price of braking the economy."

### Unlike Brazil

By contrast, the Private Sector Center for Economic Studies, a research unit financed by business groups, worries that government outlays and the amount of money in circulation are still rising too fast, despite the IMF accord. If Mexico converts dollars earned from oil exports into pesos to finance domestic spending, instead of using them primarily to pay for imports of capital equipment, the center warns, it will vastly increase the money supply and will fall into the same inflationary trap as the OPEC countries. In this view, the amount of oil revenue that Mexico can absorb without triggering a new price spiral will depend on its ability to finance local costs of investment projects out of increased internal savings.

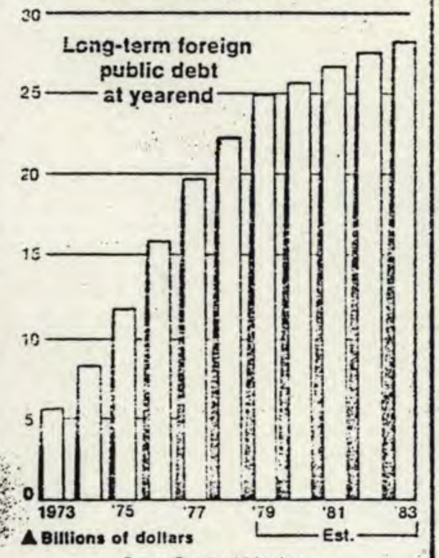
Even so, in attempting to shift its economy to a faster track, Mexico faces constraints that dictate an economic strategy very different from that of Brazil, Latin America's other major economy, which has managed to combine

Rising exports of oil and gas . . .



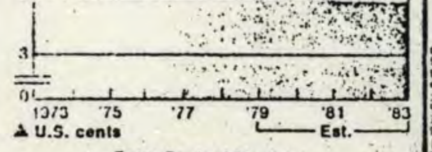

Data: Bank of Mexico, Secretariat of Program & Budget, Wharton Econometric Forecasting Associates

. . . will help service the foreign debt . . .



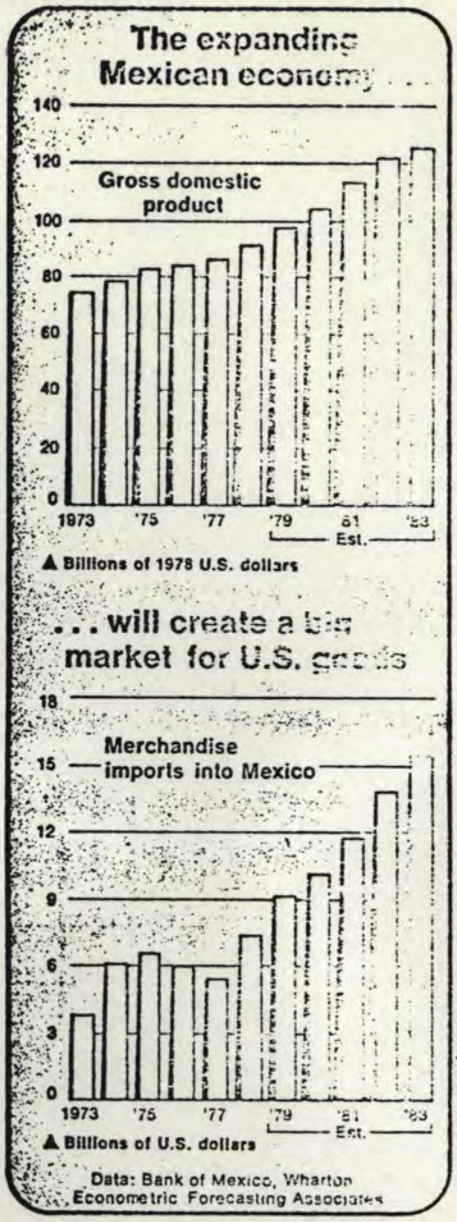

Data: Bank of Mexico, Wharton Econometric Forecasting Associates

. . . and stabilize the peso

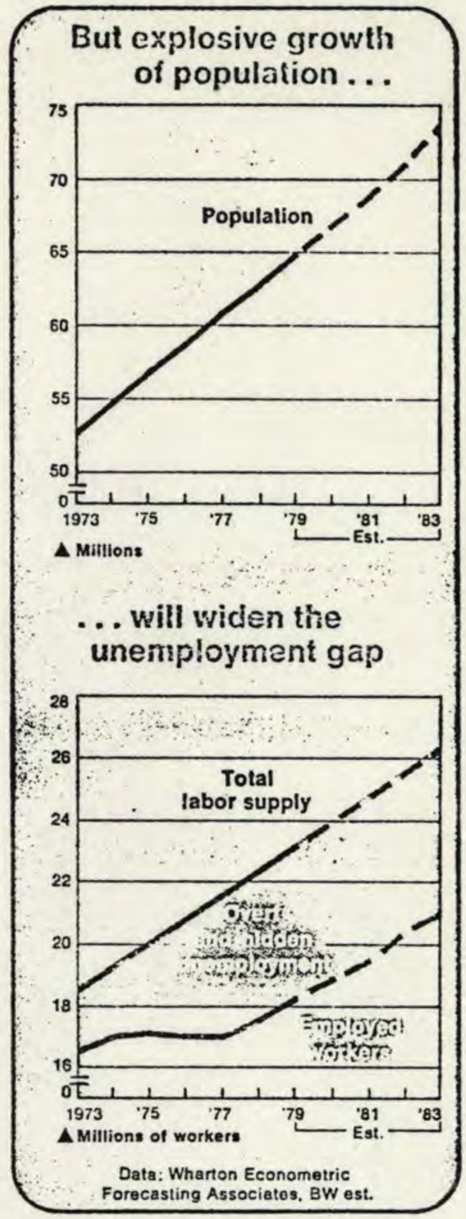



Data: Bank of Mexico, Wharton Econometric Forecasting Associates

Gerard Kunkel—BW




Charts by Steve Hart—BW




rapid growth with high inflation. Brazil deals with some of the economic distortions of fast-rising prices by "indexing" financial values to encourage savings, by aggressively devaluing the cruzeiro to keep Brazilian products competitive in world markets, and by applying tight currency controls to prevent a flight of capital.

By contrast, Mexican policymakers have little choice but to allow complete freedom of capital movements and to maintain a relatively stable exchange rate for the peso. Currency controls would be ineffective because of the long, permeable border with the U. S. And any sign of renewed peso instability could destroy business confidence and trigger a new flight of capital by Mexicans, who sent an estimated $4 billion abroad and shifted funds into dollar accounts in local banks when the peso weakened in 1976 after 22 years of fixed parity against the dollar. "Mexicans have a kind of neurosis about the stability of the peso after so many years of making it a dogma," says Abel Beltrán del Rio, director of Latin American projects at Wharton Econometric.

Most foreign bankers agree that after 1980 Mexico will have the option of revaluing the peso because oil revenues will more than cover its foreign exchange needs after the big bulge in foreign debt service, estimated at $4 billion to $5 billion in each of the next two years, has passed. But such a move is unlikely because it would price Mexico's nonoil exports out of international trade. "We are committed to manage our rate of exchange in such a way as to maintain the competitivity of our exports *vis-à-vis* our principal market," says de la Madrid. To achieve that, Mexico will either have to bring its inflation rate closer to that of the U. S. or let the peso drift downward. Wharton forecasts a moderate downward float over the next two years, then a steady peso during the last two years of López Portillo's term (chart, page 67).

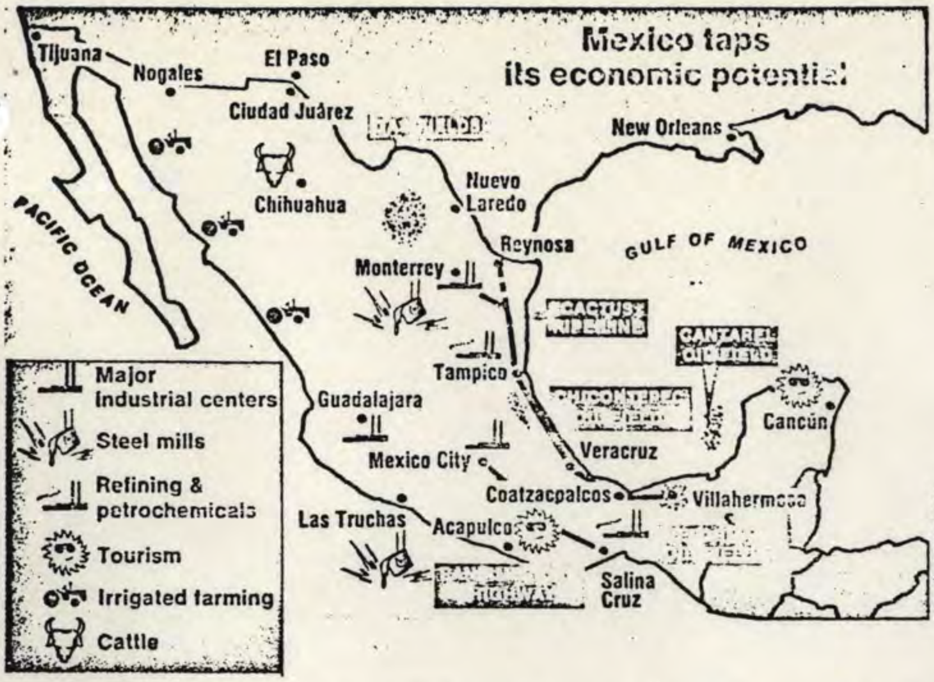
### Private investment revives

Such policies, if they maintain a climate of business confidence, should slow the government's encroachment on private business in Mexico's mixed economy, even though the government is investing heavily in industry through Pemex and other state-run enterprises. Under former President Echeverría, the government's share of annual capital investment rose from 33% in 1970 to more than 50% in 1976. In addition to stepping up government outlays for projects such as Las Truchas, a $1 billion steel complex on the Pacific coast, Echeverría discouraged private investment by populist attacks on business and by deficit spending that stirred fears of devaluation.

By contrast, López Portillo's pledges of business-government cooperation in an "Alliance for Production," backed by fiscal incentives, credits, and steps to clear away bureaucratic obstacles, encouraged a strong revival of private investment last year. Leading the way are the country's biggest business groups, including Grupo Industrial Alfa, the country's largest conglomerate, and Valores Industriales (VISA), both headquartered in Monterrey. Alfa is pouring money into everything from heavy electrical equipment manufacturing, with Japan's Hitachi Ltd., to large-scale tourist developments. VISA is expanding in traditional sectors, such as beer, foods, and banking, and plans to invest more than $100 million over the next five years in hotels, in partnership with France's Novotel. It is also launching fishing ventures with European and Japanese companies to develop resources in the 200-mi. "exclusive economic zone" that Mexico has claimed off its long coastlines. "Within five years, VISA should be twice its present size in real terms," says Finance Director Othón Ruiz Montemayor. "We should have assets of $1.1 billion to $1.3 billion."

Equally bullish is Crescencio Ballesteros, who is president of Cia. Mexicana de Aviación, of the Mexican affiliates of Union Carbide Corp. and Deere & Co., and of a holding company with 18 subsidiaries. "In all of the companies in which I am involved, we are expanding," Ballesteros says. "We are seeing that the investments we had planned were too small, so we must increase them."

Mexico is also giving a warmer welcome to foreign investment, which was discouraged by the Echeverria administration's strict application of a 1973 law that limits foreign companies in most cases to a 49% minority share in new Mexican ventures. There is no prospect of a change in the law, which led to a decline in the net inflow of foreign




direct investment from a peak of $360 million in 1974 to less than $300 million in 1976. But the Foreign Investment Commission, which screens investment proposals, is interpreting the law more flexibly—for example, by allowing foreign companies up to five years to find local partners while holding the majority Mexican shares in trust. As a result, net capital inflow rose to an estimated $400 million in 1978, according to Héctor Alvarez de la Cadena, who heads the commission. "I think we will easily double this in 1979," he predicts.

Among the biggest investments in the works are expansions by the country's seven auto makers. General Motors Corp. reportedly proposes to invest $300 million over the next three years, Chrysler Corp. plans a $136 million outlay in the same period, and Volkswagen plans to invest $66 million. GM is not talking about its plans, but Alvarez says they provide for "massive" exports. Foreign auto makers, who are allowed to keep 100% control of most Mexican subsidiaries under special legislation, have the choice of raising the local content of their vehicles to 75% by 1982, or exporting enough cars or parts from Mexico to offset all their foreign currency costs, including imported parts and payments of technical fees and dividends to parent companies. This year, Detroit's Big Three will export an estimated $260 million worth of parts, mostly to the U. S. and Canada.

Other U. S. companies with investment plans range from PepsiCo Inc., which will invest $10 million in snack food plants and export part of the output to the U. S., to Ingersoll-Rand Co., which may triple its investment in Mexico to expand production of capital equipment for industry, including oil and petrochemicals. Japanese and European companies also are expanding in Mexico.

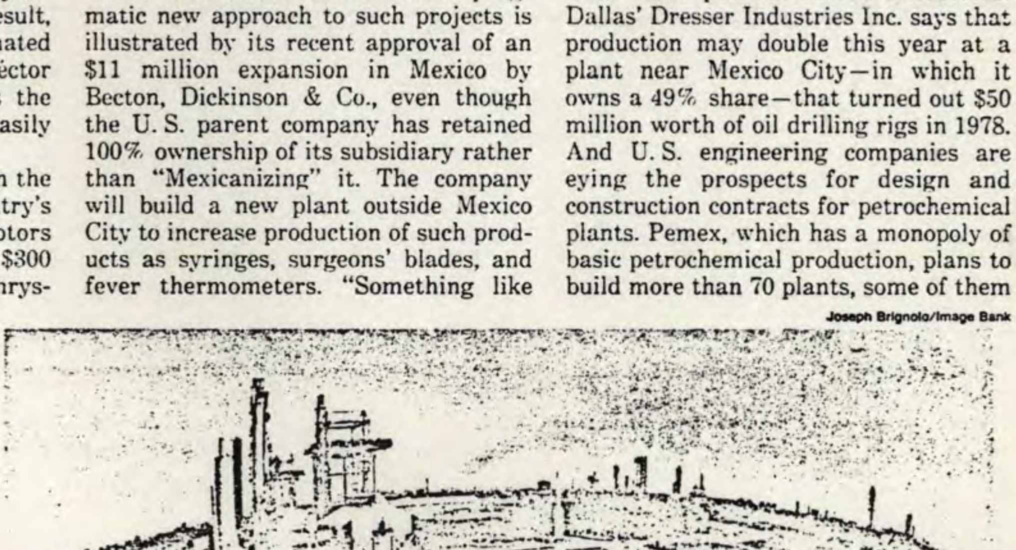
The investment commission's pragmatic new approach to such projects is illustrated by its recent approval of an $11 million expansion in Mexico by Becton, Dickinson & Co., even though the U. S. parent company has retained 100% ownership of its subsidiary rather than "Mexicanizing" it. The company will build a new plant outside Mexico City to increase production of such products as syringes, surgeons' blades, and fever thermometers. "Something like 58% of the people of Mexico are 18 years and under, so the market growth in terms of future population is fantastic," says W. D. Andrews, president of Becton Dickinson's Latin American division.

The company got the go-ahead because its investment will help achieve basic government objectives. By shifting manufacturing to a new plant outside Mexico City, it will help to relieve congestion in the capital, destined to become the world's biggest city as the influx of unemployed from rural areas swells its population, already estimated at 13 million. And to create more jobs, Mexico particularly needs labor-intensive operations such as those of Becton Dickinson, which employs 900 workers in its present plant in the capital. As part of the deal, the company agreed to step up exports and to reduce the technical fees that the Mexican subsidiary pays to the U. S. parent from 2½% to 1% of sales. The investment commission is trying to hold down such payments for "technology transfer" by multinational companies.

### The petrochemicals buildup

The oil bonanza is also creating opportunities for investments to supply equipment and services directly to the petroleum and petrochemical industries. Dallas' Dresser Industries Inc. says that production may double this year at a plant near Mexico City—in which it owns a 49% share—that turned out $50 million worth of oil drilling rigs in 1978. And U. S. engineering companies are eying the prospects for design and construction contracts for petrochemical plants. Pemex, which has a monopoly of basic petrochemical production, plans to build more than 70 plants, some of them

Joseph Brignolo/Image Bank



Petrochemical plant at Coatzacoalcos: Pemex' goal is 22 million tons of capacity by 1982.




### 'The potential is enormous'

world-scale complexes, in the next four years. To bid on such jobs, Jacobs Engineering Group Inc. in Pasadena, Calif., set up a joint-venture affiliate with a majority Mexican partner in Mexico City last October, and a half-dozen other major U. S. engineering firms are weighing such a move.

Pemex' buildup could put Mexico into the big leagues in petrochemicals. The company plans to raise its production capacity to 22 million tons per year of primary petrochemicals by 1982, worth an estimated $7 billion annually at current world prices. Affiliates of such companies as Celanese, Du Pont, Monsanto, Union Carbide, and Germany's BASF are already using raw materials supplied by Pemex to make a variety of "downstream" petrochemicals and man-made fibers, mostly for the local market.

#### Aiming for exports

Now the government has announced a plan to promote large-scale petrochemical plant construction by private companies in coastal areas by offering a steep 30% discount on raw materials supplied by Pemex as well as on fuel and electricity. In petrochemical ventures defined by Pemex as "secondary," foreign companies must have Mexican partners that own a 60% controlling interest. To qualify for the discounts, they will have to locate in designated areas, probably on the Gulf coast around Tampico and Coatzacoalcos, where Pemex' big La Cangrejera complex is situated, and near Salina Cruz and Las Truchas on the Pacific. Companies also must agree to sell part of their output abroad, a provision aimed at enlisting the worldwide marketing capabilities of multinational companies in exporting Mexican products.

The discounts could give Mexican petrochemicals a big competitive advantage in international markets because raw materials account for 75% to 80% of the cost of petrochemicals. But petrochemical makers are waiting to see details of the scheme before making plans.

They point out that there is a worldwide glut of many petrochemicals, and OPEC countries also are promoting petrochemical ventures. Mexican products that are subsidized, or are exported at less than Mexican domestic prices, could be hit by countervailing duties or antidumping levies in the U. S. market. "Meantime, we are doing a lot of 'what if' thinking and preliminary studies," says Addison H. Lynch, assistant managing director of Celanese Mexicana. "The amount of interest is enormous, because the potential is enormous." ■

# FOOD IS CHALLENGE FOR MEXICAN REGIME

## Nation Aiming for Self-Sufficiency —Oil Profits Seen as Lever for Attaining Diet Needs

By ALAN RIDING
Special to The New York Times

MEXICO CITY, Jan. 8 — With its long-term energy needs already satisfied by vast new oil finds, Mexico has now set for itself the challenging goal of achieving self-sufficiency in food.

In the eyes of top Mexican officials, oil and food are closely related. Not only will the coming oil boom make chronic malnutrition and rural poverty politically explosive issues, but also the country may find its oil earnings increasingly spent on imports of food rather than heavy machinery and advanced technology.

President José López Portillo has therefore established energy and food as the twin priorities of his administration. On energy he has been lucky, with oil discoveries tripling proven reserves in two years and oil exports expected to earn $3.6 billion in 1979. But in agriculture, in the President's words, "the problems are more entrenched and production more complex."

As a first step, the Agriculture Ministry's budget for 1979 has been increased by 60 percent to about $2 billion, while private banks are being encouraged to step up credit to the countryside. Yet officials concede that the outlook is not promising.

### Millions Without Land

What makes the food issue so complicated is that production is inextricably linked to the system of land tenure established after the 1910 revolution. To satisfy the peasant revolutionaries' demand for "land and liberty," hundreds of thousands of tiny and inefficient plots were handed out by successive Governments to landless peons. The policy brought relative peace to the countryside, but it was disastrous economically.

Today, with the country's population five times larger than it was in 1910, four million peasants are still without a plot of land. But there is no spare land left to distribute and, during the last decade, peasant unrest has resulted in large number of illegal occupations of private farms.

With the tiny plots unable to provide for the five or more children that most peasant couples have, there has been a growing exodus from the countryside, either to nearby cities or to the United States. But hundreds of thousands of young peasant remain in rural areas, working the land and living off the promises of successive Governments that one day their turn for land will come.

President López Portillo has faced this problem squarely by announcing that the answer lies in increased productivity and not in handouts of land. "Many plots produce only a bare subsistence," he said in his state of the union address in September. "Land itself is no longer a source of wealth if it is not supplied with the elements that make it rich and productive."

### Trade Surplus in Agriculture

One sector of Mexican agriculture, centered in the northwestern states of Sinaloa and Sonora, operates efficiently, with wealthy private farmers producing fruit and winter vegetables for export to the United States. Along with exports of meat, coffee and cotton, this accounted for Mexico's $600 million trade surplus in agricultural products in 1977.

The Government's search for self-sufficiency is therefore essentially aimed at the corn, beans and wheat that make up the diets of most Mexicans and that are produced here almost exclusively by peasant farmers. In 1978, Mexico imported two million tons of corn and 780,000 tons of wheat. Grain imports in 1979 are expected to cost the country more than $900 million.

Yet, given the structure of Mexico's agricultural sector, it is difficult to see how even large Government investment can turn plots of one or two acres into economically viable units. Between 1970 and 1976, under President Luis Echeverría Alvarez, vast funds were poured into the countryside, yet production still grew more slowly than the population.

Soon after taking office, the López Portillo administration began promoting "collectivization" of land parcels, known as ejidos, so that the farmers could obtain credit and acquire machinery. But, because of the Mexican peasant's deep attachment to his own piece of land, the program has faltered. To "collectivize" by force, on the other hand, would be politically hazardous.

### Rural Industry Emphasized

Recognizing that farming could never fully employ all the peasants, who still account for 48 percent of the country's 66 million inhabitants, the Government has begun emphasizing rural factories that it hopes will add value to agricultural products at the source and create new employment in the countryside.

But this strategy runs up against a serious marketing problem. Already Mexico's exports of fruit and winter vegetables struggle with complex requirements set by the United States to protect the farmers of Florida and southern California. On the other hand, Western Europe is fully supplied by the Mediterranean region.

While the Government continues to pursue its objective of food self-sufficiency, many senior officials are privately resigning themselves to a pattern of oil revenues paying for imports of basic grains. "For years, we've been trying to increase agricultural production without changing the system of land tenure," an official said. "We're still not willing to break the ejido system, so we'll have to continue paying that price"

While export crops maintain an agricultural trade surplus and oil revenues pour in, the Government can easily afford imports of basic grains expected to exceed $1 billion a year by the early 1980's. But this strategy condemns millions of peasants to poverty, underemployment and malnutrition. And the only escape route will remain that to the cities or, as illegal aliens, to the United States.

In the long run, though, Mexico's new oil wealth should result in thousands of new jobs in urban areas. Estimates also show that, by the year 2000, only 20 percent of Mexicans will be living in the countryside. Yet, with a population of at least 120 million by then, there will still be 25 million impoverished peasants.

REMEMBER THE NEEDIEST!

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# Clouds of people

Mexico, a country that is so full of life, is too full of lives. The explosive population growth of the past 50 years makes it certain that its population will continue to mushroom, and cloud the nation's prospects for the next quarter of a century. But if Mexico succeeds in developing its natural resources and natural talents then, in the early part of the 2000s, when the growth in its population will have come down to a more manageable rate, Mexico could be a power to reckon with in the Americas. And if in 2010 it can celebrate the centenary of its revolution without in the intervening years having had to repress another, this rare Latin American democracy will have not only power but glory.

It is sometimes said that Mexico is engaged in a race between population and development. In the past four decades, the gross national product has risen in real terms by about 6% a year, which means that it has gone up roughly tenfold, to about $70 billion. Its population, only 20m in 1940, has more than tripled to 65m at the end of 1977. Gnp per head: about $1,000, putting Mexico in the category of middle-income developing countries. But if, on the face of it, growth has won the race so far, that face is cosmetic, for the form of development pursued by Mexico since the outbreak of the second world war has not improved the living standards of perhaps the greater part of the Mexicans by the statistical average of 3% or so a year. The fruit of development has been unfairly shared out. Those that have eaten the least of it have bred the fastest.

Growth in gnp is important; but just as important is its distribution. In his address to the Massachusetts Institute of Technology in April, 1977, the president of the World Bank, Mr Robert McNamara, produced some very dramatic figures:

> A study of 40 developing countries revealed that an increase of $10 in the income of the lower 60% of the income strata, carrying with it advances in nutrition, health and literacy, was associated with a crude birth rate decline of 0.7 per 1,000; but that a $10 increase in the overall average income of everyone was associated with a crude birth rate decline of only 0.3 per 1,000. . . . If the growth in national income does not result in improvements of the living conditions of the lower income groups, it will not help to reduce fertility throughout the society.

The absolute growth of Mexico's population has now become so large that it challenges any model of development. During the six-year presidency of Mr José Lopez Portillo which started in December, 1976, the number of people in his care will rise by about 14m—or more than the entire population of Venezuela: over 2m more people a year, over 6,000 more people a day.

It was not until 1974 that Mexico finally got around to birth control. The tardiness was due in part to the Catholic church. Only in part, for there is a strand of anticlericism in Mexico, the formal powers of the church having been curtailed as early as 1857 under the Liberal constitution. Just as important is the *macho* (best defined as ostentatious virility) pride in being father of a large family—and a more generalised *macho* that national greatness is in part greatness in the number of Mexicans. To restrict the number of Mexicans would in this Gaullist view somehow be to fall in with a *gringo* (United States) plot to curtail Mexico's destiny. It was only in the 1960s that the numbers really began to get out of hand, as the arithmetical result of an understandably benign attitude to the growth in the population after the revolution. Deaths in the chaotic 11 years after 1910 and the reluctance to bring children into an uncertain world actually reduced the population. Later, with political stability and an air of promise that life would

**This survey was written by David Gordon**

improve for the peasant on the land which the government said it would redistribute, the birth rate went back to normal.

"Normal" in Mexico is and always has been a high norm. A survey in the 1960s showed that a statistically average woman in her early forties in Mexico City would have had 5.2 live births, whereas her statistical equivalent in Caracas would have had just over 4 live births, in Rio de Janeiro just over 3.5 and in Buenos Aires just under 2. Had the Mexico City woman been to university, she would have had 3 children; had she been without schooling, she would have had over 7. The survey was carried out in 1964, but if there has been much of a change, it could have taken place only very recently. The overall birth rate has for many years—and at least up to 1972—been 44 per 1,000. Birth rates now are 37 per 1,000 in Brazil, 34 per 1,000 in India and 14.7 per 1,000 in the United States.

Mexico's very high birth rate is, somewhat unusually, associated with an extremely low death rate, of about 9 per 1,000 (9 per 1,000 in Brazil, 15.5 per 1,000 in India, and 10 per 1,000 in Sweden). The low death rate is in part because the population is so young; but the eradication of cholera, bubonic plague and yellow fever in the 1920s and the gradual spreading of health services in the country has had a dramatic effect on life expectancy at birth. A Mexican born at the turn of the century could have expected to live for only 30 years; his great-grandson born 60 years later could expect to live twice as long, and life expectancy is still rising.

Mexico's population rose by 2.2m in 1976: there were 2.8m live births to outnumber the 600,000 or so who died. Mexico's current birth rate is really appropriate only for a country where each woman has to have many children because few survive—a country, in other words, where life expectancy would be much less than Mexico's was at the beginning of the century.

Of Mexico's 65m, about 30m are under 14 years old. Those over 18 are adding to their existing families, and the families of today's children and adolescents are yet to come. The very best that Mexico's too-long delayed birth control programme can achieve is to make the avalanche a little smaller than it otherwise would be. Fertility levels in Mexico are about 6 children per woman. For the replacement of the population, a fertility level of 2.3 is needed. Even when Mexico's mothers have only 2.3 children each, the population will continue to grow until the age structure is such that the number of deaths balances the number of births. If by the year 2000 Mexicans have just enough children to replace themselves, the population would eventually stabilise, at 175m, in 100 years' time.

Since the Mexican government began family planning programmes in 1974 to complement those of private organisations, a small dent has been made in birth rates. Radio commercials tell listeners that they can control the size of their families. The subject is no longer taboo. The government's approach is to give advice and make contraceptives available free in hospitals and clinics. In such a *macho*-chistic country, there is no emphasis, as yet, on sterilisation—and abortions are illegal although there are estimated to be between 500,000 and 800,000 a year. The main problem occurs in the rural areas: about 25m people live in 94,000 scattered communities of 2,500 souls or less. It will take years to train enough people to train enough others to reach them. As there are only about 10,000 pharmacies, the government is planning to distribute contraceptives through food and general stores and sell them at half the commercial price. There is, at least, no shortage of contraceptives.

Mexico is the largest producer of oestrogen in the world since the root from which it is made grows there. Moreover, Syntex, which pioneered the pill, is part Mexican in ownership and in origin.

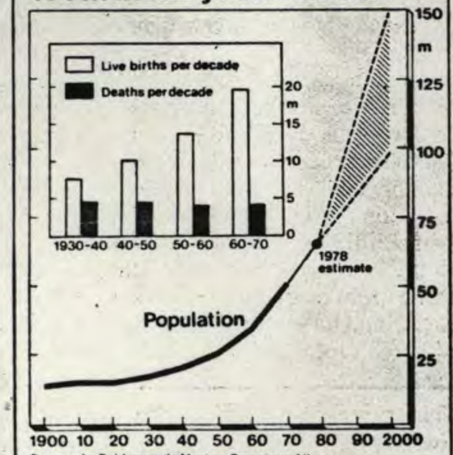
A report (in Studies in Family Planning, August, 1977) claims that the initial impact of the government programme has been marked. Whereas there were about 900,000 users of contraceptives in 1973 (11-12% of the women aged 15-44 "living in union"), there were 1.8m three years later (21%). But, getting the first fifth of women to use an IUD or to take the pill is the easiest fifth, for the presumption must be that there was a pent-up demand which is now being met. Changing the attitudes of the rest of the 8m fertile women will take time. Persuading their husbands will take even longer: in 1976 only 4% of the women were protected by their partner's use of contraceptives.

Since there is no time limit on the registration of births, figures of births in recent years need to be treated with caution. But preliminary figures for June-December, 1976, indicate that the birth rate has come down to 36 per 1,000, which would imply that population growth came down from 3.4% to 2.7-2.8%.

That would be a very dramatic decline. Even the optimistic targets for the government's population policy (at least it now has one) are for the growth rate to come down to 2.5% by 1982—and to 1% by the end of the century. For the latter target to be met, given that the mortality rate will continue to fall, the birth rate would have to come down by 60%, to about 16 per 1,000 in 22 years. This is highly implausible: Hongkong, the country that has experienced the most dramatic drop in birth rates, managed a fall of 44% to 28 births per 1,000 in the 20 years to 1974.

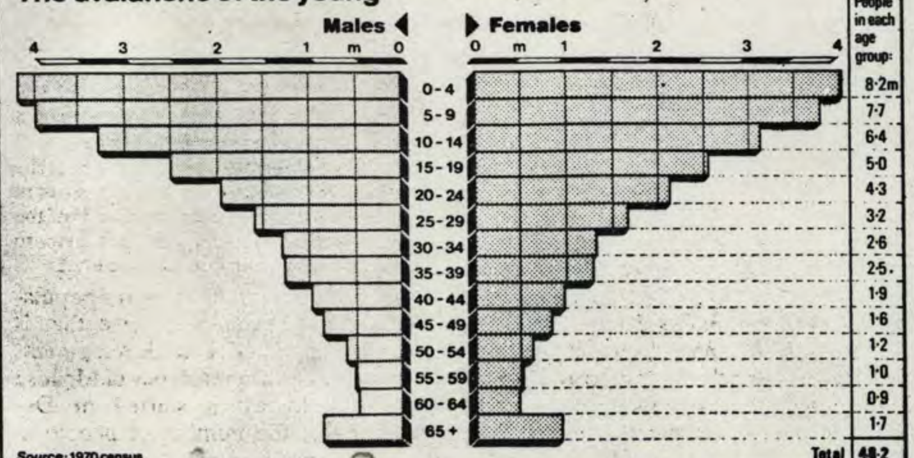
If by some miracle the population

## 100m in 100 years - or less




*Source*: La Poblacion de Mexico, Francisco Alba

## The avalanche of the young




*Source*: 1970 census

growth were to decline gradually to 1% a year by 2000, then in that year the population would still be over 100m. If the population were to continue to grow at 3.4-3.5% a year, the rates for the past 15 years, then by 2000 it would be getting on for 150m. Adding 20% to the optimistic assumption and subtracting 20% from the pessimistic one produces a figure of 120m Mexicans by 2000. By the time the centenary of the revolution comes in 2010, the population of Mexico could easily be double the present 65m. The man—or perhaps the woman—who will be president in that year is now about 30 years old. As he climbs the greasy political pole, the new population born between now and his arrival at the top will grow by three times as much as the present population of California, or by slightly more than the present population of West Germany.

That gathering cloud of people casts several long shadows.

● Emigration from the overpopulated countryside is imposing huge strains on the town and cities. Mexico City, the most powerful magnet, 7,000 feet up in a smog-capturing valley, has about 12m-13m people in it, and is growing by nearly 750,000 a year.

● If the economy were to return to the growth rate of 6-7% a year that is the official target, industry could provide at the outside 150,000 new jobs a year. Even if a further 150,000 were provided elsewhere, over half the new entrants coming into the workforce each year would not find a job. So unemployment

## The United States of Mexico

Mexico is the fifth largest country in the western hemisphere (after Canada, the United States, Brazil, Argentina) and the fourteenth largest in the world. It covers 760,172 square miles, a quarter the size of Canada and it is more than three times larger than France or Spain.

Mexico has two great mountainous ribs. The Sierra Madre West runs from the United States roughly parallel to the Pacific for some 800 miles. Between it and the ocean there is a fertile coastal plain.

The Sierra Madre East is about 300 miles from the Gulf of Mexico in the north, but gradually gets closer to the sea as one travels south along its 900-mile length. The eastern coastal plain also has good land, irrigated by rivers and canals.

Between the two Sierra Madres is the high plateau covering 40% of the territory. This is divided into two regions. The northern plateau is 4,000 feet above sea level, mountainous and arid. The southern plateau, the Central Meseta, is a bit less mountainous, less arid, and much more populated: Mexico City is on it.

At the southern end of the high plateau, a volcanic mountain range crosses east to west from coast to coast. It contains the famous two volcanoes guarding the valley of Mexico, Popocatepetl and Ixtaccihuatl, and Citlaltepetl, the highest mountain in the country.

Baja California, a finger of a peninsula, is dry but rich in minerals. The Yucatan peninsula is very wet, but has no rivers: the water seeps through the thin soil into underground limestone reservoirs. It is separated from the rest of Mexico by a thick belt of tropical rain forest in Chiapas and Tabasco, and once declared itself independent.

The mountains make communications difficult. Over 60% of Mexico's population is contained between the two sierras on 15% of the territory. While the bulk of Mexico's population is thus securely located to withstand an invasion from its neighbours the United States, Guatemala or Belize, it is badly situated for anything else. To make matters worse, two fifths of the population live in widely dispersed communities of about 2,500 people, while 30% (and a rapidly rising proportion) cram into any city with a whiff of prosperity. Mexico City, has 12m-13m people, and is the world's highest large city. Guadalajara, with 2.2m, is the second largest city, Monterrey, with 2m, the third.

Mexico has a coastline of 1,700 miles on the Gulf of Mexico and the Caribbean, and 4,500 miles on the Pacific, but not one of the seaboard states has its capital on the sea. Veracruz, the only major port, was the capital of the state with the same name until Porfirio Diaz moved the capital inland in the nineteenth century.

and underemployment will grow.

- Even more Mexicans will try to cross the border into the United States to take up the low-paid work Americans do not want to do. But these hard-working uninvited guests are increasingly unwelcome, and President Carter has submitted proposals to curb the flow. Relations with the United States will worsen.
- Hugely growing numbers of rural and urban unemployed will strain Mexico's democratic structure.

Mexico is recovering its place as the world's largest silver producer. But that is not what the clouds are lined with. It is oil, of which much has been discovered and of which vast quantities are likely to be discovered. Oil removes the foreign-exchange constraint on economic development. But it does not remove the other: the lack of organisation and skills which are the cause and characteristic of underdevelopment. How do you get the oil money into the pockets of the poor without inflation—and without destroying the social structure?

In spite of those gathering clouds, it is very difficult for the visitor to Mexico not to believe that the sun will eventually break through.

The Aztecs believed it was necessary to offer the sun god, Huitzilopochtli, the blood of human hearts to nourish him to fight the night, the stars and the moon so he could rise and bring on the day. The sacrifices this and the next generation of Mexicans will have to make to ensure that the sun will rise will be hard, but less bloody. This survey looks at the Mexican people of today, their political priesthood and their economic system to see what sacrifices will be needed to propitiate the sun gods to ensure that it will be plenty they bring, not desolation.

# Children of the violated

Mexicans are fascinated by their past and themselves. They, in turn, are fascinating to outsiders. There is a continuing interest in Mexico shown by foreign anthropologists, ethnographers, geographers, sociologists, economists and journalists. The bibliography of good books on Mexico by Mexicans and foreigners is long. Mexico is as theorygenic as it is photogenic.

The Mexicans are the Italians of Latin America. To go from efficient, neurotic North America to disorganised Mexico is rather like going from Frankfurt to Rome. One would prefer to work in the northern country, but to live in the southern one. Mexico's people are rich in the foibles, virtues and faults which repressed northerners lack but are secretly envious of.

It is remarkable how Americanised in culture and values a country like Venezuela is. It is more remarkable how the Latin American country that has a 1,950-mile border with the United States has remained very Mexican and quite foreign. Mexico's imperviousness to the dominant consumer culture of the north is in part the result of its poverty. Those Mexicans who have money soon learn to spend it in very American ways on useful goods and plastic geegaws. In San Cristobal de las Casas in the state of Chiapas it is sad to see the Indians come in from the surrounding villages to sell their hand-made weavings quite cheaply and then buy relatively expensive factory-made polyester fabric. Nearer Mexico City, in Huejotzingo, nearly all the textiles in the Saturday Indian market are factory-made. Few fashion-conscious members of the Mexican middle class ask for tequila; the drink to drink is Scotch (if slightly less so since the devaluation of the Mexican peso doubled its price).

But the Americanisation of Mexico runs up against a formidable barrier in the cultural singularity of the Mexican people. Whereas Brazil and Argentina had massive influxes of migrants from Europe in the past century, Mexico, the third largest country in Latin America, did not. A few Mexicans, the *criollos*, are descended directly from the Spaniards, some 5m are pure Indian, but the overwhelming number are *mestizo*, mixed descendants of both.

Mexico has mixed its people in the melting pot, and is largely free of colour prejudice. That it is not wholly free of it is a comment that no Mexican will openly make in Mexico. But the fact is that the Mexicans at the top of the social and income scales are nearly all *criollos*; and nearly all Indians are at the bottom of them. The *mestizos* are dominant in number, but not in power. The Mexican melting pot has led to much fusion, and confusion. The "mixed-upness" of being a *mestizo* society leads to some very contradictory character traits: warmth, but suspicion; passivity, but violence; vision and cynicism; idealism and gross corruption.

In his passionate plea to Mexicans to be aware of their past and hence of themselves as Mexicans, "The Labyrinth of Solitude", the poet Octavio Paz searched for clues to the Mexican identity. He found one in the strange battle-cry shouted on the anniversary of independence: "*Viva Mexico, hijos de la chingada*". "Long live Mexico, children of the violated". Mexico, he wrote,

> discloses the wound that we alternatively flaunt and conceal. *Chingar* is to do violence to another. The verb is masculine, active, cruel: it stings, wounds, gashes and stains. And it provokes a bitter, resentful satisfaction. The word defines a great part of our life and qualifies our relationships with our friends and compatriots. To the Mexican there are only two possibilities in life: either he inflicts the actions implied by *chingar* on others, or else he suffers them himself at the hands of others. This conception of social life as combat fatally divides society into the strong and the weak. The strong—the hard, unscrupulous *chingons*—surround themselves with eager followers. This servility towards the strong, especially among the *politicos* (that is, the professionals of public business), is one of the more deplorable


*What is the authentic sound of Mexico?*

consequences of this situation. Another, no less degrading, is the devotion to personalities rather than to principles.

The strong emotional roots of this obsession with the exercise of power lie in the conquest. The *chingada* is the violation of the Indians; the *macho*, the *chingon* is the Spaniard conquistador. So, Octavio Paz continues:

> when we shout *Viva Mexico, hijos de la chingada*, we condemn our origins and deny our hybridism. The Mexican does not want to be either an Indian or a Spaniard. Nor does he want to be descended from them. He denies them. And he does not affirm himself as a mixture, but rather as an abstraction: he is a man. He becomes the son of Nothingness. His beginnings are in his own self.

As a result of this negation, Mexicans have too readily accepted prescriptions for their society imported from other places. And they have at various times tried to tear up their past and begin again. The message of Octavio Paz's book is that Mexicans should become aware of their origins, myths, customs; if "we face our own selves, then we can truly begin to live and to think".

His book, published in Mexico 20 years ago, has influenced a generation of Mexicans. Mexicans are bitter critics of the corruption, inefficiency and sloth to be found in their system, but when such criticism is made in front of a foreigner, it is the visitor's role to reassure his hosts and say "now, now, things really can't be as bad as all that". The Mexicans' ferocious pride in their country is tempered by as ferocious a cynicism about its ability to progress. One young technocrat, an enthusiastic proponent of plans to build new cities to cope with the growth in population, relapsed into contemplative gloom in this correspondent's company when he considered the chances of anything actually happening.

Whereas the United States of America

## The weight of history

**1200-500 BC**. The Olmecs, precursors of Mesoamerican culture, sculpted enormous heads; had an advanced system for calculating time using mathematics with the concept of zero; and believed that individual life was bound to the fate of some animal, who in turn was the *nahual* of a god. The Olmecs' manimal was the man-jaguar.
**AD 300-900**. Rise and then evaporation of the Mayan civilisation in Yucatan.
**350-650**. The Toltec city of Teotihuacan the "place where gods are made" (one of them the god-bird-serpent Quetzalcoatl) had a population of 200,000. Huge pyramids to the Sun and Moon. Human sacrifice.
**700-1000**. Collapse of militaristic Toltec empire gave rise to numerous states permanently at war with one another.
**1276**. The Meshicas (mistakenly but popularly called the Aztecs) arrive in the valley of Mexico. In 1325 they moved to a small island in Lake Texcoco that became Tenochtitlan, later Mexico City. Moctezuma I (1440-1469) created an empire and a sophisticated state at its heart. Aztecs believed they were a people chosen by the sun god Huitzilopochtli. But the only nourishment acceptable was blood, and so the Aztecs were driven to supply victims, which did not endear them to other tribes.
**1519**. Hernan Cortes landed at Vera Cruz—in one of the years Aztecs expected the return of Quetzalcoatl and so Moctezuma II initially welcomed him. Cortes made allies of the Aztecs' enemies. Undermined by their own beliefs, deserted by their gods, the Aztecs were defeated on August 13, 1521.
**16th century**. The spiritual conquest of New Spain. Mass conversion of Indians to Christianity, destruction of their sacred texts and temples; a church was, for example, built at the top of the gigantic pyramid at Cholula. Smallpox reduced Indians from 16m-24m to about 1m early in the 1600s.
**1650-1750**. Colonial economy. Dependence on Spain.
**1740-1810**. Mexico's expansion into Texas and California doubled New Spain to 1½m square miles. Population tripled—to 6m. Silver and economic boom. But 5m Indians and *mestizos* and 1m whites had nothing: 20,000 Spaniards and 10,000 *criollos* had everything.
**1810**. Hidalgo's call for independence.
**1821**. Iturbide head of first independent government, but 11 years of war and economic disaster followed. He crowned himself emperor.
**1824**. A new constitution. Elections, free press, federal government, division of powers. Iturbide executed.
**1846-1848**. War with the United States. Mexico lost Texas, New Mexico and California—half its territory—for $15m compensation.
**1821-1850**. 50 governments. In 1848 oppressed Mayan Indians revolt.
**1850**. The intellectuals take to politics. Conservatives wanted to live in the shadow of the monarchies of the old world. Liberals denied all traditions, Spanish, Indian and Catholic, and wanted: settlement of virgin land by foreigners; small property owners; subordination of church to state; science; and the tutelage of the United States. Conservatives won initially, but Liberals got power in 1855.
**1857**. A new constitution. Church powers curbed. Benito Juarez nationalised church land.
**1858-1860**. War between the Conservatives and Liberals; Conservatives got help from Napoleon III and offered the throne of Mexico to the Austrian prince, Ferdinand Maximilian.
**1864-1867**. Emperor Maximilian turned out to be a sort of reformist liberal. The United States emerged from its civil war and the French had to leave. Deserted by the French, Maximilian was shot.
**1867-1876**. The restored republic failed to restore order to go with its superbly liberal law.
**1877-1910**. The Porfiriato. Porfirio Diaz believed in "little politics, much administration". Built railways, ports, invited foreign capital in. But society petrified,

GENERAL DIAZ WHEN HE BECAME PRESIDENT FOR THE SECOND TIME, IN 1884.

*He was president seven times*

the poor got too small a slice of the cake and Diaz became more oppressive.
**1910-1920**. Revolution and civil war.
**1917**. A new constitution. Land to be redistributed.
**1920-1928**. Reconstruction, education, murals on public buildings.
**1929**. The predecessor of the Partido Revolucionario Institucional (Pri) was founded.
**1934-1940**. Lazaro Cardenas, Mexico's most radical president, speeded up land reform, nationalised oil, and supported the Republican government in Spain.
**1946-1952**. President Miguel Aleman believed that wealth had first to be created before it could be distributed. This has been the dominant philosophy since then.
**1968**. 300 students killed in a demonstration in Mexico City on eve of Olympic Games.
**1970-1976**. President Luis Echeverria started in the same mould as previous presidents, but in words, and sometimes deeds, swerved leftwards.
**1976, September**. Peso, fixed at 12.50 to the dollar since 1954, devalued by 100%.
**1976**. In December José Lopez Portillo became president.

is full of the naive optimism that follows 200 years of almost uninterrupted progress, Mexico has for 2000 years had violent ups and downs. The birth and virtual suicide of the great Mayan civilisation; the birth and murder of the Aztec civilisation; conquest and colonisation by the Spaniards; the struggle for independence from Spain; an imported liberal constitution; an imported Austrian to serve as emperor; dictatorship; revolution. But if Mexico's history has been turbulent, Mexico's recent past has been exceptionally unturbulent for Latin America, thanks to a unique and unmistakably Mexican form of democracy.

# Pri

Mexico's political system is designed to stave off any discontent that might lead to another revolution. Every six years there is a new president, new faces, new hopes. It has been brilliantly successful at maintaining stability. But the numbers of the discontented will grow. And the political institutions—congress, the Partido Revolucionario Institucional (Pri), the ruling party whose name means "the party of institutionalised revolution", and the press—have fossilised. The system's instinct for self-survival is still strong: and so, not surprisingly, political reform has been put in hand by the president. Reform, it is recognised in parts of the Pri and elsewhere, is needed so that (a) the government can be stimulated into governing better by a stronger opposition and a better informed press and (b) the opposition groups can play in the parliamentary game rather than be tempted to play dangerous guerrilla games.

Mexico's sixennial politics ensures that peaceful change of leadership occurs. This is one of the defining characteristics of democracy. But the dominance of the Pri means there is a lack of the other: continual criticism and attack by those who hope to get into power. The one-party state, which is what Mexico democratically is, has to try to develop antibodies. What is unknown is whether the patient will then become healthier, or sicker, and whether the president will in practice tolerate the hubbub and discomfort of greater criticism.

In Mexico's guided democracy, opposition in the past has been castrastèd. The opposers have been co-opted into party and government, or bribed, or cajoled, or occasionally locked up—or worse. On occasion the government has used force to impose its authority and will—as 10 years ago when 300 students were killed so that all discontent could be swept away before the Olympic Games started.

It needs to be emphasised—although it tempts fate to do so—that another revolution is unlikely (even though many observers of Mexico, looking at the disparity between rich and poor, and between jobs offered and jobs sought, have leapt to the opposite, revolutionary conclusion). First, Mexico has had a revolution that when all is said and done was a moderate success: it was spontaneous and all-Mexican; it toppled an inequitable regime and eventually established goverments that did redistribute some land and did try (though not as hard as they should have tried) to improve the lot of the common man. The revolution has failed to satisfy the hopes and aspirations of the *campesinos* (people of the fields); but the dashing of these hopes has led to apathy and disillusionment, not to revolutionary enthusiasm. Second, Mexicans are not ideological. Thus potential revolutionaries would have to be united by a realistic expectation of the satisfaction of personal ambition. Climbing up the ladder of the establishment looks a far better way to the top. Third, while there is great social injustice in Mexico in the distribution of wealth, there is the fatalistic acceptance of the division of society between the strong and the weak, between the *chingon* and the *chingado*. Fourth, revolutions are much harder to organise than they used to be: governments have become wary; the White Brigade anti-terrorist unit of the army is a law unto itself, much feared and little discussed.

Local bands of guerrillas, sporadic riots, banditry, kidnappings do occur. Mexico is by no means free of strife and, as the population mushrooms, it is only realistic to expect an increase in such incidents. The authorities are not at all confident that outsiders can discriminate between strife of this sporadic kind and revolution proper and so the newpapers do not report all such flare-ups. They did however enthusiastically report the army's success in catching two guerrilla leaders in the state of Guerrero last October. They were two teachers, who had taken to the hills in 1972. They had recruited peasants, discontented because of the derisory prices the rural bosses in the lowlands paid for their coffee. Having got rid of the guerrillas, the government built roads and schools, and the Mexican Coffee Institute bought the coffee directly from the peasants. Stick and carrot. Rich and poor. Guerrero is one of Mexico's poorest states, and yet it is the state where Acapulco, the play resort, is located. The government can put out local fires, provided there are not too many.

There are no signs of the poor being attracted to the political parties that would like to fatten on their discontent. The poor are in the pocket of the Pri. Local bosses, the *caciques* (the Indian word for village chiefs), in return for delivering votes at election time, are given the money and the wherewithal to keep their charges in line. As in communist countries, the ruling party is an avenue of opportunity for the ambitious. The Mexican Communist party has had little success in drawing voters away from the Pri, for, after all, what can it deliver? The new political reforms will probably, however, ensure that the Communist party will try the democratic route and will prevent it going underground. In Puebla one Saturday afternoon this correspon-

*Out in the open in Puebla*

*Reyes Heroles, political shrewdie*

dent saw the Communist party, as efficient as elsewhere, signing up members at a rally. Nothing remarkable in that? Except that Puebla is in one of the most conservative states in Mexico, and the previous governor would not have tolerated a Communist meeting in the *zocalo* (town square).

The rumblings of discontent will be heard more loudly now that the political reforms have gone through. They may be loudest from the right. The Partido de Accion Nacional (Pan) did well in the mid-term elections in 1973 (for example in Puebla) and actually took four seats away from the Pri. It is a confused party, pro-Catholic, pro-business, nationalistic, but it got the middle-class protest vote while President Echeverria was attacking it with words and inflation—especially in the industrial cities Mexico City, Guadalajara, Monterrey and Puebla.

At Pan's conference in 1976, the ultra-conservative rank-and-file leader, who had 70% of the delegate votes, was suspended from the party for two years: the oligarchy on the national executive party all voted together to do so. Since it was in the interests of the Pan oligarchs, and of the Pri, to split the party, some people think there was dirty dealing to do just that.

The Pri is going to find it difficult to live with opposition. Its leading lights have grown dim. They lack imagination and vigour. So, one object of the reforms is to infuse new life into the Pri as well as into the opposition.

The reforms increase the size of the chamber of deputies from 250 seats (ridiculously small in relation to the population) to 400; 100 seats will be allocated on a proportional representation basis to parties other than the Pri, although the rest will continue to be contested on the principle of first-past-the-post.

Minority parties will therefore have a louder voice. But to prevent "instability", if any party wins more than 90 constituency seats, it will lose its right to half the number of seats it has won through the proportional representation segment of the election. So the supremacy of the Pri is guaranteed until another party can get a majority of the constituency seats. Still, the backwoodsmen of the Pri are not happy with this challenge, controlled though it is. Nor are they happy with another provision of the proposed reforms which says the "right of information will be guaranteed by the state". Does that mean the equivalent of the "Sunshine Act" in the United States—that journalists will have the right to *get* information? Er, no: they only have the right to *receive* information. Ah. Will the government allow paid-for pro-opposition articles to be published in the poodle-like national press alongside the articles it has paid for? Will the minority parties be allowed access to television? That remains to be seen.

The national newspapers are independent in ownership—formally at least—but are kept in a state of vassalage. Newsprint comes from a government monopoly. Government advertising goes to the favoured. Enough newspapers are kept alive to fragment the market and prevent any one of them emerging strong and authoritative. Journalists are cossetted and lack initiative. Columnists—and cartoonists, who are excellent—are allowed more leeway, on the grounds that opinions can be free when facts are scarce. In 1976 when the editor of Excelcior, then Mr Julio Scherer, tried to assert his editorial independence, the government manoeuvred him out. He then started a weekly magazine, Proceso, which immediately got an influential circulation of about 40,000. It is widely read by the country's rulers because they need to know the truth.

The need for criticism by an informed press and by a more powerful opposition has long been one of the themes of Mr Jesus Reyes Heroles. As minister of the interior, he is a sort of prime minister, and this post has often been a stepping stone to the presidency. But it cannot be in his case as his parents were not born in Mexico. Freed therefore from the overweening ambition that usually turns ministers of the interior into censors, Mr Reyes Heroles has been able to begin to put into practice his more liberal ideas on the functioning of a democracy. With his behind-the-scenes encouragement, a new newspaper trying to be a quality one, Uno Mas Uno, has been started. But old habits die hard. When the minister of planning, Mr Carlos Tello, was sacked by the president, he sent his tough letter of resignation to all newpapers. The president's press office then told newspapers to play it down. Some ignored it; some hid it on their inside pages. Uno Mas Uno put it on the front page.

Just as Mr Reyes Heroles is freed from some of the usual practices of ministers of the interior, the president is freed from some of the usual loyalties to the party. Many Pri professionals are up in arms at the (mild) political reforms. But the president has no reason to feel protective towards the Pri since he rose as an administrator and not as a party hack. The Pri stalwarts wanted Mr Moya Palencia (the minister of the interior under President Echeverria) to be the party's presidential candidate and were taken aback when Mr Echeverria anointed his friend Mr Lopez Portillo.

The Pri has much to fear from a more open democracy. The party is nearly 50 years old, and power has corrupted. Scandals are emerging about vote-rigging frauds in places where support has been on the wane, such as in Nayarit. But the party has far more to fear from the continued loss of popular support that can be forecast with certainty if the party does not rejuvenate itself under the pressure of opposition.

It is the president that has most to fear from greater criticism. The institution of the presidency has mystique and power. If criticism becomes more vocal, if the president is held up by a congress trying out new muscles, if the press becomes more insolent—will the president lose some of his *macho* in the eyes of his people? It is a risk he should run.

*El jefe—the boss*

# Something of a royal progress

Every Saturday Mr Lopez Portillo leaves Mexico City to attend a regional meeting of the "alliance for production". Late in November it was the turn of the state of Guanajuato to report progress. On board the presidential jet were the ministers of agriculture, human settlements (environment) and labour, top officials from these and other ministries and from state enterprises. It may be bothersome for senior technocrats and bureaucrats to turn up at the airport at seven on a Saturday morning when they could be relaxing, or even working; but there is something refreshing about hauling an aircraft-load of the Mexico City rulers out to the sticks to meet—admittedly, carefully selected—members of the ruled every week.

These visits have something of a royal progress about them. But then in Mexico, as in the United States, the president is in many respects an elected monarch (and in Mexico his maximum reign is one six-year term). However, the fuss and brouhaha surrounding this visit was of a very muted kind: no bunting, no huge crowds corralled by the police. President Lopez Portillo is not one for pomp and circumstance. He perched on a coffee table to talk to some of the people on the aircraft, and to their consternation stayed perched there during the landing.

The city of Guanajuato is a jewel. Built in the colonial era, it has a doll's house theatre, magnificent churches, many squares and an extraordinary subterranean motorway converted out of the old sewers. It also has a bizarre museum of mummified corpses. The Cervantes arts festival (to be expanded into an international arts festival under the patronage of madame president) is held in the city. But the state of Guanajuato has grave problems, typical of other states in Mexico: too many people, who flock into the city, not enough land.

That combination results in low productivity and high frustration. The "alliance for production" is an artifice invented by the president to concentrate minds on increasing production and to divert hearts from the frustration. Businessmen, workers, farmers, *campesinos* and government are expected to make commitments to raise production. And certainly greater production of food, oil, goods, houses, and roads is very welcome in a country short of most material things. Production is a matter which, like motherhood anywhere except in Mexico, it is hard to be against. But peasants and farmers do not deliberately not produce. Their failure is the result of a mass of complicated factors. The president's simple message—produce—has the virtue of simplicity, the vice of oversimplification.

In his first annual state of the union message, last September, he said "we want to resolve the contradictions between an already outworn development scheme and the model to which the Mexican revolution aspires". That word "contradictions" is the tell-tale phrase of the technocrat who has found himself a nice pragmatic criterion—production. By so doing he frees himself from the burdens of a free-enterprise ideology, a left-wing ideology or the mythology of the Mexican revolution.

Since Mexican politicians have tended to feather their own nests behind a facade of words, slogans and promises dating back to the revolution, a president who is a little less rhetorical and a little more down-to-earth than many of his predecessors is welcome. But Mexican politicians have sometimes had to give out words because they were not able to deliver goods. Only if President Lopez Portillo succeeds in delivering the goods will his people forgive him for reducing the ration of soothing words.

At Guanajuato, his own speech made no concessions to the desire of the peasants to get their own plot of land. Since land hunger was the spur to the Mexican revolution, politicians have since paid lip service to the promise implicit in the Zapata-inspired 1917 constitution to redistribute land to the peasants. These politicians have known full well that further redistribution of Mexico's small proportion of fertile land would lower its productivity, but have gone on repeating the promises all the same. President Lopez Portillo is more honest: "it's time", he said at Guanajuato, "to think not so much of dividing the land up further, but of multiplying its yield".

Again, at another "alliance for production" gathering a few weeks earlier in Yucatan, he had another uncomfortable message for the *campesinos:* "you have to separate what is credit from what is subsidy". Yucatan was a boom state in the late nineteenth century, thanks to henequen fibre, (or sisal as it is better known, being so called after the port there from which it was shipped). The henequen millionaires from Yucatan did not diversify into other crops, neither did they invest in industry. After the revolution, the *ejidos* (state-owned smallholdings) took over the haciendas. They were hit by the depression in the 1930s and the rise of synthetic fibres in the 1960s. The descendants of the large haciendas live off their dwindling investments while small henequen farmers have gradually gone into bondage to the banks. They sell their crop in advance to the state agricultural bank, and are doled out small amounts of money in "loans" every week. They have come to depend on this handout. There is little other work in Yucatan except in the still small tourist industry catering for those who come to see the Mayan sites. So bank credit is being used as underemployment benefit. This may be a "noble intention for the Yucatan peasant", said the president, "but confusion, insufficiency, inefficiency and corruption is the result".

These are harsh words. And they were delivered on the anniversary of the revolution, a day usually given over to pious revolutionary platitudes. But what can the president do about the basic problem of the henequen peasants—and that of this country as a whole—unemployment?

# Politics and planning

Since power naturally rises to the top in Mexico, the president can exert the greatest influence on the course of the economy. Will business invest? Will the state do so instead? Will agriculture get rather more and industry rather less? It nearly all depends on the president.

Mr Lopez Portillo came into office intending to share power over the economy. In his inaugural address he unveiled not only political reform but also an administrative reform to bring logic into an unwieldy state sector, in which spending has grown from 120 billion pesos in 1970 to 635 billion pesos ($28 billion) budgeted for 1978.

He decided that super-ministries should be set up. In the new line-up, the finance ministry lost control over government expenditure and was simply left responsible for raising revenue. It was, in other words, demoted. Promoted to the top of the administrative tree was the minister of planning and the budget, which was made responsible for planning the economy (in the medium term as well as the short) and deciding the size and direction of government expenditure (in which, of course, short-term considerations had to be blended with medium-term ones). That was not the end of the matter, for the ministry of national assets and industrial development has been given the nuts-and-bolts function of looking after natural resources (including the essential resource for Mexico's future, oil), of planning industrial development and of exercising financial control over the state corporations in these areas. The ministry of commerce has been made responsible—probably sensibly—for domestic and foreign trade, tariffs, licences and export credits, while the supervision of water resources—again logically—has been handed over to the ministry of agriculture. A separate ministry of fisheries has also been created, so as to persuade the Mexicans, not before time, to exploit another natural resource, the fish that swim close to Mexico's 6,200-mile coastline. The new bureaucratic carve-up has plenty of logic behind it—and it still leaves the president with the decisive say.

It looked as though the key ministry in this new shuffle of responsibilities was the new ministry of planning and the budget. The job of this ministry, it was decreed, was to draw up medium-term national and regional plans but also to determine government expenditure for the year ahead in the light both of the longer-term plans and of its evaluation of the short-term prospects for the economy. The idea was to substitute macroeconomic planning for the accounting methodology of the ministry of finance, which used to tot up spending requests, give the green light to those for which foreign finance was available (from the World Bank, or, more importantly, from commercial banks), and then make a judgment about how much of the rest could be financed domestically. Macroeconomic policy-making from the top down would, it was hoped, replace financial management from the bottom up.

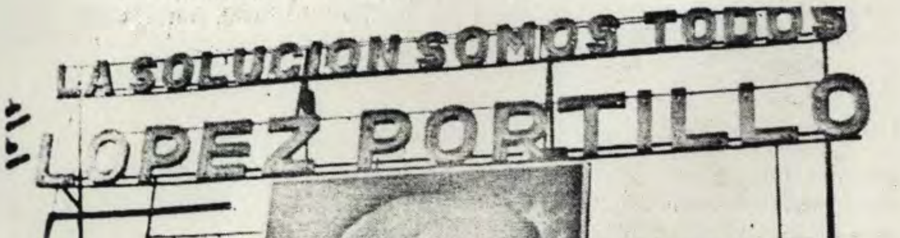
The result was conflict, perhaps unavoidable and even designed to be so. A battle royal developed late in 1977 over the budget for 1978. The finance ministry said since interest on debt would take 278 billion pesos, no more than 620 billion pesos of other expenditure could be financed for 1978. Rubbish, said the ministry of planning, arguing that its forecasts of stagnant private investment showed that the economy needed 700 billion pesos of government expenditure, and adding, rather truculently, that it was none of the ministry of finance's business to decide how much the government should spend, but only to finance that spending.

After months of argument in the economic cabinet (the economic cabinet, and debate, are both innovations), the president showed conclusively that he remained in the driving seat. Only a few weeks before the budget, he accepted the resignation (which had been tendered before) of the minister for planning, Mr Carlos Tello, and for political balance, asked for the resignation of the conservative minister of finance, Mr Julio Moctezuma. As the president told your correspondent:

> I appointed these two old friends of mine knowing they had different ideologies, and knowing that Tello was an expansionist and Moctezuma was more concerned with stability. But instead of giving me options, they clashed; from the same figures, they reached different conclusions; I got conflicts, not options.

But the split of functions could only have exacerbated a split in approach. A small clue to the shift of power back to the finance ministry came on December 15th, when the spending budget was unveiled, not by the new minister of planning and budget, Mr Garcia Sainz, but by the new minister of finance, Mr David Ibarra.

*Ibarra: the finance ministry's tops*




*"The solution is us." And me*

To be fair to the president, the row between Mr Tello and Mr Moctezuma was not only, or even mainly, a clash of personalities and a clash of institutions. It expressed a genuine difference of opinion on the future course of the Mexican economy, which can only be understood—as the president in speaking of "options" is well aware—in the light of the stable, if inequitable, development of the Mexican economy up to 1970, and then of the unstable, if in attempt more equitable, policies pursued by President Echeverria between 1970 and 1976 which, of course, finally resulted in the devaluation of the Mexican peso. Mexico's problems today cannot be understood unless one delves into that past history.

## Zigzag

**The conduct of the Mexican economy is a zigzag path going from slightly left to rather right. The farthest left it got was between 1934 and 1940, when President Lazaro Cardenas, a genuine man-of-the-people president, carried out a series of radical measures. Like his contemporary, Roosevelt, he believed in active government. He gave more cultivatable land to the peasants than any president before or since. When the American oil companies refused to give their workers a pay rise, he nationalised them. He created rural banks and the industrial development bank, Nacional Financiera. He was paternalistic, but he was a great believer in self-help schemes, co-operatives, and the ability of the poor to pull themselves up given a bit of help. He is the well-chosen saint of today's intellectuals.**

The second world war brought a surge

## They take it in turns

Mean annual growth rates of investment

| | Leftish presidents | Public investment % | Private investment % | Rightish presidents |
|---|---|---|---|---|
| 1953-58 | | 6.6 | 10.1 | Ruiz Cortines |
| 1959-64 | Lopez Mateos | 12.1 | 5.3 | |
| 1965-70 | | 7.7 | 15.4 | Diaz Ordaz |
| 1971-76 | Echeverria | 15.0 | 2.8 | |

in demand in the United States that spilt over into Mexico and set it on the path of industrialisation. For most of the period since, that has been the path presidents have been content to tread. One president may have gone to the left to attend to the *campesinos*, to promote public works in the countryside and investment by the state industries; but he was invariably followed by a president who watered the flower beds of business on the right (as the table above shows). The bends were not sharp. During the period from 1958 to 1970, the overall doctrine was stability: of the peso, of price levels and of government spending, so that private domestic and foreign investment would produce growth which would, it was hoped, produce jobs.

Between 1958 and 1973, the real gross domestic product rose nearly every year by between 6% and 8%. Since this was higher than the growth in population, and the statistic called gdp a head therefore rose, few voices were raised in warning about the growth in population. However, since the income from producing the domestic product was very unevenly distributed, gdp a head was an unrepresentative indicator of how well most Mexicans were doing out of growth. Since 1950 the richest 20% of households became 4.1% a year richer as measured by average household real income, whereas the bottom 20% became only 1.2% a year better off.

Mexico is one of the most unequal countries in the world in terms of the distribution of national income. The top 20% of households in 1969 received 64% of family income. In contrast to the pattern in other countries, the share taken by the top 20% has been rising and that of the poorest 20% has been falling (see table below).

Unequal development laid the foundations for several industries, helped the diversification of exports (so that about a third are now manufactured), provided home-produced goods to replace imports, and gave opportunities to Mexican managers and supervisors to develop that rarest skill in developing countries—organisation. It also created a large middle class.

Many members of the Mexican middle class are nice enough to feel today rather ashamed of their privileges. A congress of Mexican economists in April, 1976, did a unique thing for a congress of economists: they all agreed that the old model of development had failed. Earlier governments, they argued, had fallen into the trap of encouraging industry by over-favouring industrialists. So as not to disturb the precious confidence of the captains of industry, tax reforms had been delayed. To pay for the infrastructure industry demanded, the government had been obliged to borrow. To counteract the inflationary impact of government deficits, the corrupt trade unions had been manipulated by the government into accepting wage increases far lower than the increases in workers' productivity. To keep the relatively small number of unionised workers quiet, food prices were kept low, so the peasants in the country became undercapitalised and condemned to subsistence on the poverty line. Thus food production failed to expand very much, and Mexico had to import even its staple foodstuff, maize.

Imports of the capital goods needed by the new industries added to the foreign exchange bill: so did the outpayments of dividends and royalties. Using the balance-of-payments argument, industrialists demanded, and got, protection from foreign goods. As a result, the domestic market became profitable and at the same time inefficient. So too few companies in Mexico had the incentive and the ability to export. The coddling of industry distorted the pattern of the economy and created a bias against agriculture, while capital-intensive industry failed to provide jobs for those driven off undercapitalised land. The coddling of industrialists distorted the distribution of income so that demand encouraged the supply of luxury goods for which the bulk of the people had neither the money nor the need, though they may well have developed the taste for them in watching the better-off disport themselves. In short, Mexico became the classic dual economy with a modern sector small in numbers but rich in money and power, and a traditional sector large in numbers but poor and weak.

As a result, there was "a structural inability to satisfy the most basic needs of the majority of the Mexican population in the postwar period". This is the conclusion reached by an academic, Cynthia Hewitt de Alcantara, after a detailed analysis of income, nutrition, health and education statistics. "The problem was not lack of resources, but sumptuous spending by the wealthy", she continues. On her reckoning it is not the growth in population—so far that is—but the distribution of its output that has been at fault. Agricultural production grew rapidly enough during the postwar years for the availability of calories per head to rise from 2,000 to 2,600. But, even so, more people were undernourished in 1970 than in 1940: 30-40% of the population could not afford an adequate diet.

This analysis, or milder or tougher versions of it, is on the way to becoming the conventional wisdom in explaining what went wrong with the Mexican miracle. But it should be borne in mind that industrialisation through stability was the conventional wisdom among most experts on development while it was being experimented with in Mexico. If it proved to be a convenient cloak for domestic industrialists and their short-sighted sins, the blame falls on other shoulders as well. Many Mexican intellectuals, heirs to those that advised Emiliano Zapata to press for land reform, feel the political heir of the revolution, the Pri, has betrayed the people in the sense that while the party has retained the rhetoric of the revolution, it has in fact done the bidding of big business. But if Mexico turns out to be more susceptible to pressure from

## The rich got richer

Distribution of family income

| Income group | 1950 | 1958 | 1963 | 1969 |
|---|---|---|---|---|
| | % of family income | | | |
| Lowest 20% | 6.1 | 5.0 | 4.2 | 4.0 |
| 30% below the median | 13.0 | 11.7 | 11.5 | 11.0 |
| 30% above the median | 21.1 | 20.4 | 21.7 | 21.0 |
| 15% below the top | 19.8 | 24.3 | 24.3 | 28.0 |
| Top 5% | 40.0 | 38.6 | 38.3 | 36.0 |
| | 100.0 | 100.0 | 100.0 | 100.0 |
| Top 20% | 59.8 | 62.9 | 62.6 | 64.0 |

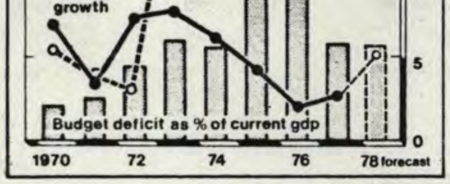
*Source: ILO World employment programme working paper by Wouter van Ginneken* business than to the pressure of conscience, then it is not really very different from other countries in Latin America and from other democracies elsewhere. Where Mexico differs is that a president who moves to the left does have the protection of the constitution—and the charisma of his office.

## Imprudent populism

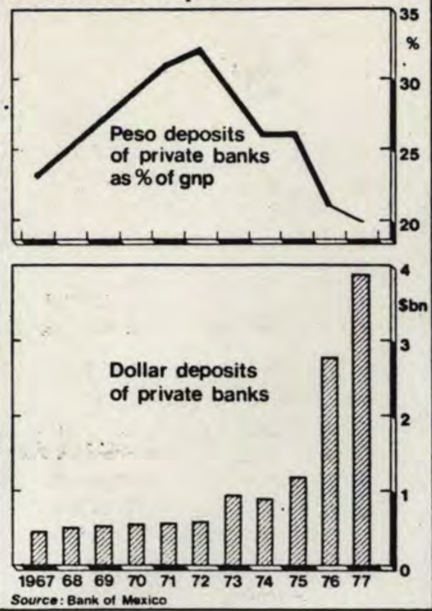
**Enter in 1970 President Luis Echeverria, a man whose political instinct far outran his political abilities, whose economic ambitions outran his economics, and whose populism outran his popularity. Exit in 1976, three months after having devalued the peso following 22 years of financial stability, and thereby giving rise to fears for the stability of the whole Mexican system.**

President Echeverria had been the previous president's minister of the interior and had the reputation of being another fiscal conservative. But he was a man of no fixed convictions. He came rapidly to the conclusion that the *campesinos*, one of the three legs of the Pri, had been neglected for longer than was politic; but he then proceeded to kick the other two legs, the workers and the middle classes, and any other shins in sight.

Even the tough businessmen of Monterrey shudder at what he nearly did. The Monterrey industrialists are the descendants of the motley crew of Basques, Sephardic Jews and the poor who came to New Spain a century after the conquest and settled for, and on, barren scrubland. Guts, determination and hard work have left them fervent believers in the virtues of guts, determination and hard work. They are self-reliant, nationalistic and, as they admit, often appear self-righteous and unsympathetic. But they do not care




**More spending, less growth, more inflation**




**Faith lost in peso**

about being loved: they have created the second most important industrial centre outside Mexico City, up in the north. It is a pole of financial power, though nowadays about 70% of their new investment is outside their home state of Nuevo Leon. The members of the Monterrey group are not the puppets of American business: they have copied American business methods, and have their own MIT (Monterrey Institute of Technology), and they own their companies. They are Mexico's most successful practising conservatives. One of their leading lights, a man of understanding, who coined a neat epigram on the spot—"to distribute what is not there is demagogic; not to distribute what is there is injustice"—said:

> Echeverria did us the favour of showing us how weak we all were. He acted in good faith, but was egotistical, impractical, and, above all, a bad administrator. So he failed even to do the "good" he wanted to do. He nearly wrecked the country. Had he been a good administrator, Mexico would now be socialist. It isn't. He managed to turn the town against country, worker against employer—but opened everyone's eyes to the dangers of populism.

What President Echeverria did was to launch a verbal onslaught on business, and to use the supposed failings of business as an excuse for a massive increase in public expenditure. Much of the money was well spent: airports, railways, and 70,000 miles of paved and dirt roads were built; spending on education went up six times, public investment in industry five times and in agriculture four times. There was a small improvement in the country's infrastructure.

Mexico's real gdp rose a mere 3.4% in 1971, but by 7.3% and 7.6% in 1972 and

*Echeverria contemplates his past*

1973, boom years in most of the capitalist world. But long after the ball was over, the band of government expenditure played on. Mexico was one of those countries—Britain, Italy and Sweden were among the others—which refused to face up smartly to the severe world recession that set in after the boom. Using the argument—probably justified, but the figures are too unreliable to know for sure—that private-sector investment had slowed down, government investment was pushed up. But this object of government policy was not reinforced by any other measures.

- Taxes did not go up to keep pace with expenditure. So income generated in creating services was available to buy goods whose supply had not increased. The result was a growth in the money supply, domestic inflation and higher imports (these last made worse by world inflation and the oil price rise).
- The peso was kept rigidly fixed to the dollar, because this was an article of faith held as strongly by the president as by the men of Monterrey. As the rate of inflation got increasingly out of line with that of Mexico's main trading partner, the United States, Mexican exports became increasingly uncompetitive. American imports seemed cheap. The balance of trade worsened.
- No attempt was made to impose foreign exchange controls. Another of Mexico's articles of faith is that there should be complete freedom by Mexicans and non-residents to convert pesos into dollars. This is perhaps inevitable in view of the virtually open border with the United States. But such exchange freedom imposes a huge constraint on a Mexican government. It has to find fa-

**Borrowing into a hole**

| | | | | | | $m |
|---|---|---|---|---|---|---|
| *Balance of payments* | *1972* | *1973* | *1974* | *1975* | *1976* | *1977* |
| Current-account deficit | −761 | −1175 | −2558 | −3769 | −3044 | −1780 |
| Capital flight* | +233 | −378 | −138 | −406 | −1939 | −1772 |
| | −528 | −1553 | −2696 | −4175 | −4983 | −3552 |
| Financed by | | | | | | |
| Foreign investment | 190 | 287 | 362 | 362 | 231 | 197 |
| State-sector borrowing | 417 | 1064 | 2045 | 3555 | 4207 | 3901 |
| Private-sector borrowing | 186 | 324 | 326 | 423 | 222 | −75 |
| | 793 | 1675 | 2733 | 4340 | 4650 | 4023 |
| Change in reserves | 265 | 122 | 37 | 165 | −333 | 471 |

**Including errors and omissions, short-term capital.*

vour with the wealthy—or risk the outflow of their savings. President Echeverria and his policies put bank deposits into the hands of the wealthy and then upset them by his populist policies. And as it gradually dawned on them that the link with the dollar might be cut, capital began to flee the country or "fled" internally by being converted into dollars at the bank. Perhaps $4½ billion "left" Mexico before devaluation on August 31st.

● Rather than give way to the inevitable devaluation, the government borrowed fantastic sums on the international markets (as the table above shows). It substituted official debt for private assets. The government, in effect, paid for its wealthier citizens to transfer their money to a safe haven abroad.

In a desperate attempt to find propagandist ways of showing his concern for the poor he had helped make worse off, President Echeverria sanctioned the illegal occupation of the land by peasants in the state of Sonora in November, 1976, thereby frightening the rich even more. These peasants were jobless in part because the overvalued peso had obliged the productive farmers in Sonora to grow wheat, which uses few workers, instead of labour-intensive cotton. There was even talk of possible coups.

During the last two years of his presidency, President Echeverria made numerous trips abroad to build himself up as a Señor Third World, in an attempt to win the secretary-generalship of the United Nations. It is lucky for the third world that he failed: his heart may be in the right place, his head is not. If this sounds a harsh judgment it is because his net achievement was to clobber the poor with inflation and help the rich escape its evils.

# Back to earth

Since Mr Lopez Portillo had been President Echeverria's minister of finance after his predecessor was removed for objecting to the way the president was conducting the financial affairs of the country, he might not at first glance have seemed the obvious choice for pouring oil on financial waters. But he instantly made a good impression with his down-to-earth inauguration speech on December 1, 1976. And the measures taken by the authorities since then—in contrast to the chaos in the three months following the devaluation—have on the whole impressed observers by their pragmatism, commonsense and ingenuity.

Mr Lopez Portillo made peace. He went to the United States to soothe American anxieties. Before taking office he was in on the talks with the International Monetary Fund on the terms of the post-devaluation credit facilites of $960m. He made a deal with the union boss, the aged and powerful Mr Fidel Velazquez, under which control of a workers' housing fund would be ceded to the union, and independent unions that Mr Echeverria had mischieviously encouraged would be discouraged; and in return, Mr Velazquez agreed to limit wage demands to 10% in 1977—a year when inflation was 20-25% (there are no reliable representative inflation figures). He told the peasants not to occupy any more land illegally, but proceeded with the legal distribution that Mr Echeverria had initiated. He religiously attended the feasts of the Monterrey industrialists: as Mr Alberto Santos, head of the industrialists of Nuevo Leon, said: "In comparison with the previous president, we feel we are in heaven. His ministers not only listen to us—they pay attention".

The governor of the Bank of Mexico, Mr Romero Kolbeck, soothed the bankers to whom the Mexican public sector owed $20 billion and the private sector owed $5 billion. Why, your correspondent asked the Mexican representative of one of Mexico's main creditor banks in the United States, did the banks carry on lending when they saw that devaluation was inevitable?

> It's not my business that the money was used to prop up the peso. It's not the business of banks to question the good faith, the motives and objectives of the government. If a government wants to borrow for the reserves—then so long as the counterpart peso funds are being used for long-term investment, I'm happy.

Is such an astonishing declaration of non-interference admirable? Or an abnegation of responsibilities that will later fall into the IMF's lap? Since one of the prime objectives of the operations of the IMF is to create confidence in financial institutions, banks can in a sense ride freely on the IMF's back, knowing that any economic package will enshrine prompt repayment of their debt. They will get their dollars back: the sacrifice of paying twice as much in pesos for each dollar falls on the shoulders of the borrowers. Imprudence in lending to countries rarely rebounds on the lenders.

The IMF conditions for the loan to Mexico were that the public-sector deficits as a percentage of gdp should fall from the 8.7% reached in 1976 to 5.7% in 1977, 3.7% in 1978 and 2.2% in 1979. New foreign debt was limited to $3 billion in 1977 and in 1978. Targets were laid down for money supply. As a condition of the loan, there were to be no foreign exchange controls and a reduction in trade protection.

All the conditions laid down for 1977 were met. The turnaround in the balance of trade, helped by oil exports and the boom in coffee prices, as well as by the impact of devaluation on the demand for imports, was dramatic. Thus there was no need for trade and payments restrictions.

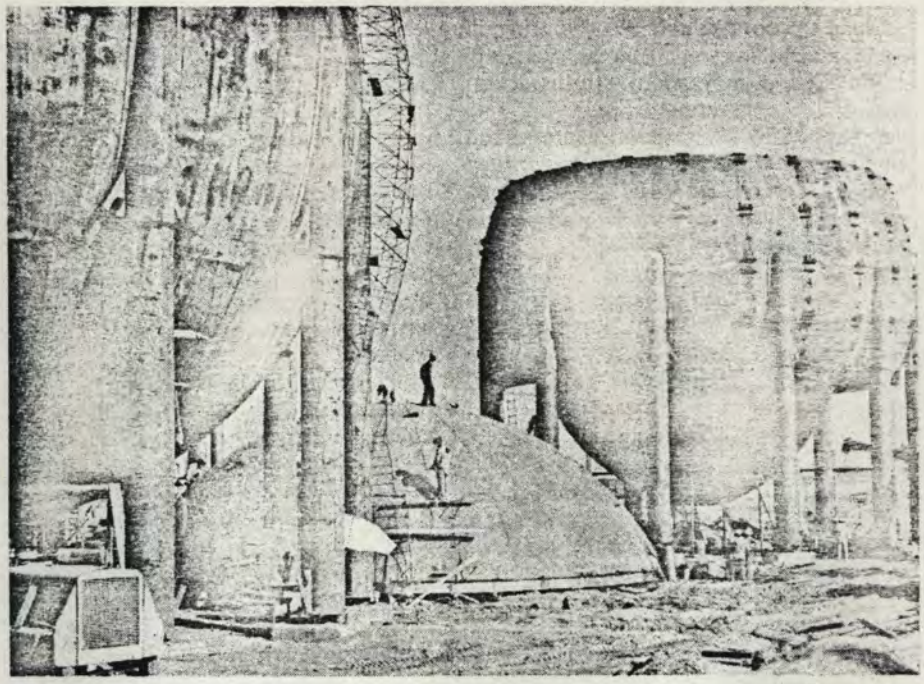
**Three budgets, three years apart**

| | 1972 billion pesos | % *change 72/75* | 1975 billion pesos | % *change 75/78* | 1978 billion pesos | % of total |
|---|---|---|---|---|---|---|
| Oil industry, electricity | 51.5 | *+175.5* | 141.7 | *+73* | 245.4 | 38.4 |
| Health, education, etc | 37.8 | *+125* | 85.2 | *+104* | 174.2 | 27.4 |
| Admin, other | 24.8 | *+167* | 66.4 | *−15* | 56.7 | 8.9 |
| Agriculture | 10.1 | *+234* | 33.7 | *+58* | 53.4 | 8.4 |
| Transport, communications | 18.2 | *+94* | 35.3 | *+50* | 52.9 | 8.3 |
| Commerce | 5.8 | *+433* | 30.9 | *+27* | 39.2 | 6.2 |
| Fishing | 0.07 | *high* | 6.2 | *+66* | 10.3 | 1.6 |
| Tourism | 0.5 | *+160* | 1.3 | *+92* | 2.5 | 0.4 |
| **Total*** | **148.7** | *+169* | **400.7** | *+58* | **634.6** | 100.0 |
| % of gdp | 29 | | 41 | | 42 | |
| Govt consumption and investment as % of gdp | 15 | | 21 | | 22 | |

** Both capital and current expenditures (except debt interest and repayment) of the whole public sector*

Increased production by the nationalised oil company, Petroleos Mexicanos (Pemex), eased the revenue side of the government accounts. A squeeze on current spending reduced government expenditure. Companies, which were pushed close to bankruptcy by the effect of the devaluation on their dollar borrowings and on the cost of imports, had no money to invest. In 1976 Mexico's real growth rate fell to 2%, the lowest level for decades. In 1977, it was a mere 2.5%.

So Mexico is faced with a choice between stability now and private-sectorled growth later and state spending now (but of course of a more sensible, better controlled, better financed form than under Mr Echeverria). And this is what the row between the planning and finance ministers was really all about. The December budget signals a victory for the anti-expansionists (a relative term, as the growth in spending is still large in money terms—see table on previous page). But the broader debate on the paths to development continues. In the light of Mexico's past experience, and its future growth in population, what is the best path to follow? Will oil lubricate that path—or just make it more slippery?



# The muscles of our anatomy

"Oil and gas are the muscles of our anatomy: we must use them. . . . This wealth makes it possible to create a new country that is not only prosperous, but rich—where the 'right to work' will at last become a reality." So says Mr Jorge Diaz Serrano, the head of Pemex. He certainly has a point.

Mexico has been an oil producer for the whole of this century. After Texas began to gush, President Porfirio Diaz sought to attract foreign oil money to Mexico by abandoning the law customary in Spanish legal systems that vested mineral rights in the state. Henceforth, owners or lessees of the surface land owned the oil. The British civil engineer Weetman Pearson (the first Lord Cowdray) had by 1906 acquired 50-year tax-free concessions to nearly 1m acres. Since the oilfields were on the Gulf coast and away from the revolutionary fighting, exports continued to grow. By 1921, Mexico was producing 530,000 barrels a day (b/d) and was the second largest producer after the United States, accounting for a quarter of world production.

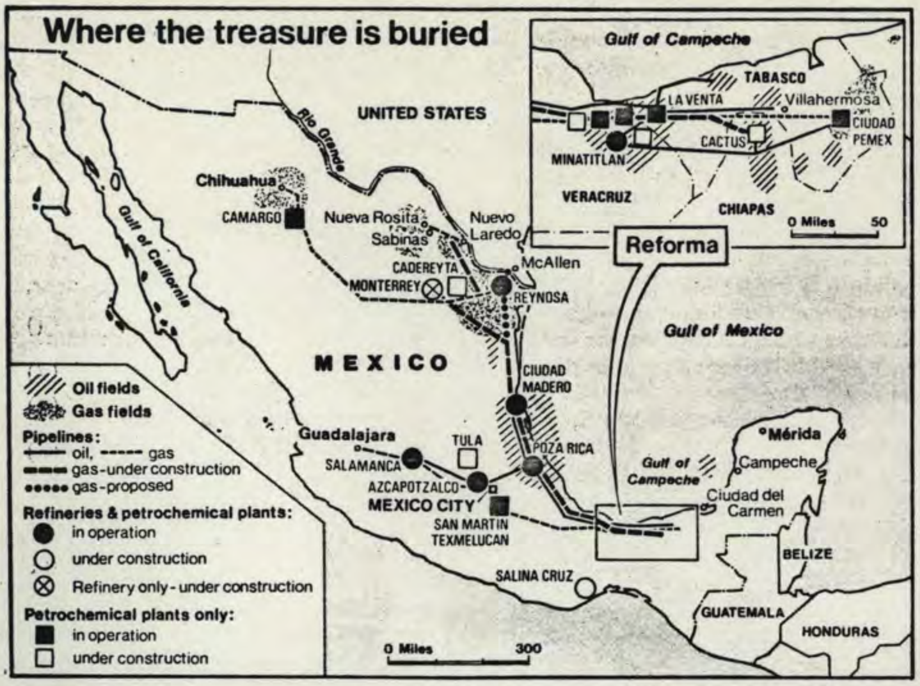
Then came the depression. There was a glut of oil, and it became more profitable for the American oil companies to operate in Venezuela and for the Europeans to get their oil from the Middle East. The Mexican constitution of 1917 had restored mineral rights to the state, which began to tax the oil companies. Venezuela in the 1930s was like Mexico under *Diazpotismo*—rule by a dictator willing to sell his country (and his oil) for personal gain. Mexican production slumped; workers were sacked.

Forty years ago this year, Mexico again astonished the world with its radical behaviour by nationalising the foreign oil companies. The two large ones, Standard Oil and Shell (which had bought Lord Cowdray's Mexican Eagle companies in 1919), in a united stand with the others, refused to implement a supreme court judgment in favour of the oil workers' union in a wages dispute. Making use of a clause in the constitution giving the state the right to confiscate private property in the national interest, President Cardenas in 1938 became the first politician in the world to nationalise the assets of foreign oil companies. Britain broke off diplomatic relations for three years and the oil companies imposed a boycott on Mexico, neither buying its oil nor selling supplies and technology.

This turned out to be doubly fortunate for Mexico: its oil lay undiscovered and unused in the decades that prices were low; and it is now the only developing country which has both oil and technical expertise in depth. But the boycott left scars. Mexicans are ferociously nationalistic about their oil and are wary of foreign oil companies. It is quite out of the question for *gringos* to be allowed to work in Mexico in the way they do in the North Sea. Mexico is determined to exploit its considerable reserves by itself.

Three weeks after taking office, President Lopez Portillo announced that proven reserves (known oil recoverable commercially at current prices) were not 6.3 billion barrels (of oil and natural gas equivalent)—but 11.2 billion barrels. Whence did this miraculously convenient oil for pouring on troubled economic water suddenly come? From seismographic data. Mexico had in the past used rather conservative methods for estimating oil reserves, and had not adopted the methods pioneered to solicit money from bankers to develop the Alaskan fields. This—or so the official story goes—Mr Lopez Portillo discovered from a working party he had initiated even before he became president. (It remains a mystery why President Echeverria did not make—or make use of—the same discovery.) Mr Lopez Portillo, and his appointee at Pemex, Mr Jorge Diaz Serrano, are far from conservative about the size of the reserves. By the end of 1977, the figure had risen to 16 billion barrels; "probable" reserves were notched up at 29.2 billion barrels; and "possible" reserves were put at 120 billion barrels, based on guesstimating from geological data. For comparison, Saudi Arabia's proven reserves are 150 billion barrels. The jump in possible reserves is from the discovery of three new oil regions, and as exploration and drilling in them continues, the proven reserves rise.

- First come the fields around Reforma and Samaria in the states of Chiapas and Tabasco. These are the most developed of the new fields. Oil was discovered in




May, 1972, but of the 60 oil-bearing structures identified, only four are producing—at the rate of 800,000 b/d between them. They are of good Middle East quality with a high yield of oil per well and an exceptionally large volume of associated natural gas.

● Next come the offshore fields in the gulf of Campeche. The "golden lane" which stretches from the traditional oil fields in northern Veracruz down to Reforma seems to extend into the Gulf of Mexico and might even go around the peninsula. About 120 oil-bearing structures have been found—and the wells sunk have produced at a high average of 5,000 b/d each. Exploration and development is far cheaper than in the North Sea: the sea over the Chac field 50 miles north of Cuidad del Carmen is a third as deep; and the techniques for drilling have been used for many years offshore from Louisiana. Some foreign companies have been hired as subcontractors to operate the exploration rigs, but when the crew is foreign, there is a duplicate Mexican crew on board—to learn the ropes (according to Pemex), or because the powerful oil union insists (according to those sceptical about Pemex's productivity). Everyone fiercely says that the foreign companies have no equity in the oil. Offshore production should begin next year and is forecast to reach 280,000 b/d in 1982.

● The third field is in the "gulf" (Mesozoic basin) of Sabinas. This is an area of some 15,000 square miles on land in the state of Coahuila, next to Texas. Huge quantities of dry gas have been found.

There are other promising regions, such as the Bay of Vizcaino in Baja California. About 10% of the areas which might contain oil have been explored.

Mexico's oil—and gas (40% of those 16 billion proven barrels at the end of 1977)—really is there. In so far as reserves can be proven before the wells have been drilled, the American firm of oil actuaries, DeGolyer and MacNaughton, has verified them. With this level of proven reserves, Mexico joins the second rank of big league oil possessors, on a par with Venezuela and the British sector of the North Sea.

# Out from under

As soon as President Lopez Portillo took office, he authorised a massive expansion plan for Pemex. This has been revised upwards twice and planned investment by Pemex in 1977-82 now stands at about $17 billion, about three times its investment in the previous six years. Add in the associated investment in secondary petrochemicals by the private sector of $2 billion, and the figure for Mexico's investment in oil and oil-related industry tots up to about $20 billion. This will absorb about a quarter of Mexico's gross investment over the period. In 1978, Pemex's capital expenditure will account for over half the public sector's investment of $8.2 billion, and its total expenditure will be nearly 30% of the whole public-sector budget.

The main objectives of Pemex's $17 billion programme are to:

● Step up exploration: 1,300 new wells are to be drilled, 10 times as many as in the previous six years. Cost: $1.02 billion.

● Increase the production of crude oil and condensates from 1m b/d in 1977 to 2.2-2.5m b/d by 1980. Exports of crude are to go up from 200,000 b/d in 1977 to 1.1m b/d in 1980, and of refined products from virtually nothing to 300,000 b/d. Most of the increase in production is to come from Reforma and offshore. Cost: $7.13 billion.

● Double the capacity of Pemex's refineries to 1.7m b/d. Cost: $2.33 billion.

● Increase the production of gas from 2.2 billion cubic feet a day to 4 billion cubic feet a day. This is the inevitable result of Reforma's expansion since the gas comes out with the oil.

● Build plants (the biggest at Cactus, in Chiapas) to extract chemicals from the associated gas leaving it "sweet" (ie, methane, used for making ammonia and as a fuel). These plants will be able to handle most of the natural gas so that much less has to be flared.

● Export gas to the United States. But the American administration jibbed at the price of $2.60 a thousand cubic feet agreed between Pemex and American utilities. The deal to export 2 billion cubic feet a day, which would have brought in $2 billion a year, is off until the United States energy policy is settled. Mexico is going ahead with the domestic part of the gas pipeline, from Cactus up to Monterrey linking up with the northern gas fields. Cost of pipeline $650m; cost of compressors that could treble its capacity to 2.2 billion cubic feet a day, $1 billion. Cost of other pipelines, tankers and transport: $2.29 billion.

● Triple petrochemical capacity to 18.6m tonnes by 1982. Some 500m cubic feet a day of natural gas will be used to make 10,000 tonnes a day of fertiliser. Ethylene production will go up 5½ times to 1.3m tonnes a year. Cost, including gas-sweetening plants: $2.43 billion.

This ambitious plan has an internal logic. The object in the short run is to export the crude to generate the cash to invest in higher added-value petroleum products and chemicals. Not a whiff of gas or drop of oil is to be wasted. With cheap basic petrochemicals abundant, the private sector will develop a chemical industry based on them. With fertilisers cheap and abundant, the overworked land can be regenerated. If all goes according to plan, then, pricing the target export quantities at 1977 prices, Pemex will in 1982 be earning $5.5 billion from crude and refined products and will have converted a net import bill of some $750m for chemicals into an export bonus of $350m. Add in gas, and Pemex's exports could be $8 billion—or nearly 50% higher than Mexico's total imports of goods in 1977. But there are some ifs and buts: corruption and inefficiency at Pemex; the possibility of an oil glut; and doubts about how the oil wealth can be converted into jobs for the unemployed.

# The survival of the fattest

The theory of the survival of the fattest goes back a long way in Mexican history. A passage from The Conquest of New Spain by that honest soldier Bernal Diaz, on the division of the Aztec treasure, could, with suitable substitution of the words "state", "politicians" and "businessmen", be the cynics' scenario for how the oil treasure will be divided up.

> First of all the royal fifth was taken. Then Cortes said that another fifth must be taken for him. After that he said he had been put to various expenses in Cuba and that what he had spent on the fleet should be deducted from the pile. . .then there were the shares of the 70 settlers who had remained at Villa Rica, and the cost of the horse that died, and of Juan Sedeño's mare. . .then there were double shares for the Mercedarian friar and the priest and the captain and those who had bought horses, and the same for the musketeers and crossbowmen, and other trickeries, so that in the end very little was left, so little indeed that many of us soldiers did not want to touch it. [Some soldiers made a fuss so] Cortes secretly gave a bit to one and another as a kind of favour and by means of smooth speeches made them accept the situation.

Mexico is still very hierarchical, and those with power can count on, or buy, the deference of those below them. Money, and jobs, are scarce; and so corruption is—according to everyone one talks to off-the-record—very widespread.

The pessimists say: "Easy oil money is going to make corruption worse: contracts will be awarded to the wrong people for the wrong reasons, waste will result, and money will vanish down the drain or into someone's pocket." The optimists say: "Gradually, as the sons of the corrupt generation return from college abroad to jobs in the administration where they don't have to be on the take (in part because of daddy's ill-gotten gains), more honest standards will prevail; in any case the practice of open tendering is spreading; and many decisions are ultimately taken by engineers who are too unworldly to take bribes." Corruption leads to an extremely inefficient use of economic resources, but the hoped for conclusion is that there is going to be enough oil money left over to do good after the corrupt have had their take.

Pemex has a bad reputation that it has to live down. Politicians used it as a dumping ground for those to whom favours were owed. It used to be the custom to offer politicians' wives the "concessions" on a brace of Pemex filling stations. Only a few months ago a massive fiddle was discovered: tanker loads of petrol were driven to the United States from a Pemex refinery in Mexico to take advantage of the differential in price. The oil union is immensely powerful and sells jobs in the company to those that want to work there, although the management now claims it has the agreement of the union not to expand the workforce in line with production.

There is another side to the picture. However corrupt the business side of Pemex was (or is), the level of technical competence is undoubtedly high. Its affiliate, the Mexican Petroleum Institute, has a worldwide reputation for engineering design. Pemex has built 2,600 miles of gas and oil pipelines, 8 refineries (and is building two huge new ones), 60 petrochemical plants, and is the largest petrochemical producer in Latin America. Its profit record is not a fair measure of efficiency because the politicians held prices down to appease the bus companies and the passenger-car lobby. As a result, Pemex did not have the money to invest in exploration, production failed to keep pace with demand and by 1974 it was a net importer of oil to the tune of $290m.

Your correspondent visited Pemex's $500m gas-sweetening complex under construction at Cactus. The engineers on the site had all done graduate work abroad at Pemex's expense. The design was by the petroleum institute, the main contractor was Pemex's engineering division and all the other subcontractors were Mexican companies. Of foreign technology or technologists there was little sign. The basic design concept seems sensible: to build 12 small-scale but almost identical plants to get economies of experience in construction rather than the theoretical economies of scale of a large plant that in practice would be full of snags. Having a number of plants was safer and gave more flexibility. Under the tropical midday sun of Chiapas, everyone was hard at work. One engineer replied to sceptical comments about Pemex in this way; "As Galileo said, somehow it moves". And somehow, having been to Cactus and spoken to his colleagues, it would have been unfair and snide to comment that he should know exactly how Pemex moved, since 25 of his relatives were on the Pemex payroll; by then, in friendly Chiapas, that degree of loyalty between a family and Pemex seemed a virtue.

*Diaz Serrano, Pemex's overlord*

## Glut?

If Mexico has all this oil, far more than until recently it knew about, then may not Brazil, and Peru, and a dozen others have it too? Just suppose the spur to oil exploration provided by the Opec price jump does bear out the prediction that oil exists under many parts of the earth's surface—could Mexico's good fortune be swamped by an oil glut?

This would depend on Opec's success in restricting supplies to satisfy the market at the price it had set. And this in turn depends on whether the new oil exporters abide by Opec's rules, which depends on how they see the future growth in their revenues.

Mexico is not a member of Opec. So far it has been a free rider, getting the benefits of membership of the club without paying any of the dues. The dues for Mexico would be particularly high because it would have to incur the displeasure of its rich and powerful neighbour to the north. Political relations would suffer, and so would trade. Mexico would automatically lose the tariff preferences given by the United States for which only non-Opec members qualify. American growers of tomatoes, and other American lobbies that have to compete with Mexican produce, would organise boycotts.

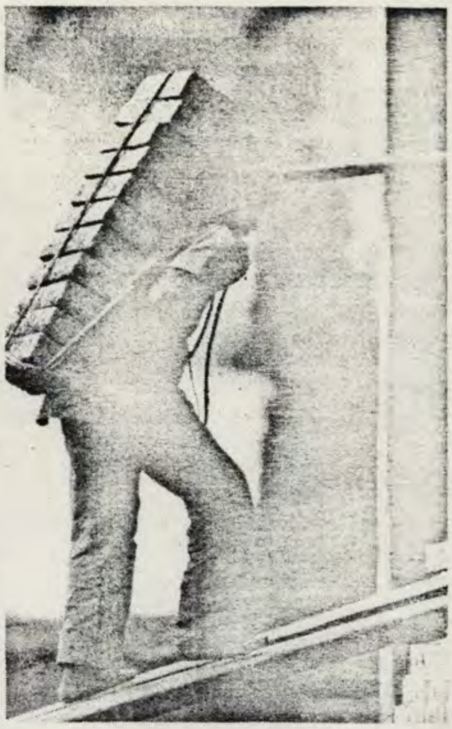
The sensible course of action is for Mexico to continue to set its oil prices in line with Opec's without joining. Provided the cartel price can be held by Saudi Arabia cutting production when there is potential oversupply, there will be no problem. But if other oil producers have to share the burdens of production ceilings, Mexico will then either have to join the discussions and thereby become a de facto member of Opec, or stay out.

If Mexico were to sell as much oil as the United States wanted to buy at prices below Opec's while other Opec members were keeping to a ceiling, other countries would be tempted to follow suit. If the cartel broke down, and the price fell, oil producers who were not members of Opec would suffer as much as Opec members. Thus there is a powerful incentive for Mexico to keep to Opec's rules and ceilings. However, Mexico might offer the United States a special deal for oil—provided Mexico was assured of long-term benefits from the United States (a higher intake of Mexican immigrants and a higher intake of Mexican non-oil exports?) to offset the possible fall in Opec prices. Such a deal would have political overtones for Mexico. It would in the eyes of the third world tie Mexico closely to the United States. And in the eyes of sensitive Mexicans at home.

There may, of course, be a glut that will oblige Mexico to make some such choice. But the seemingly unstoppable growth in demand for oil, especially in the United States, offers Opec and fellow travellers like Mexico the prospect of keeping the real price of oil constant—at the very least—provided oil producers do not overproduce.

An important pressure on them so to do will come from their own messed-up development plans. One Opec country after another has launched ambitious plans that have overstrained the domestic economy, driven up inflation and sucked in imports. Rather than scale down the plans, these countries have been seduced by sweet-talking bankers into borrowing vast amounts on the Eurodollar market, without a second thought about what such massive borrowings do to their much vaunted claims that development will increase their independence. If a country seeks independence, then it should not a borrower be. Look at the dreadful example of Venezuela. In 1974 it had a current-account surplus of $5.7 billion. Last year it had a deficit of $400m. It is now a large borrower on the international capital markets. The propensity of most oil exporters to import other things seems quite boundless. Once oil producers need a continued inflow of capital to offset a trade deficit, then they are on the road to losing control of their oil policy. The need to repay bankers and balance the accounts may oblige them to try to export more oil than their domestic conservation policies suggests is wise, and more oil than the markets of the world want at current prices.

Opec countries have too glibly assumed that oil gives them limitless opportunities to develop. They should now be beginning to realise that the speed and form of their development may set limits on their oil policies. Non-Opec Mexico should see that trap. But, in April, 1978, Pemex borrowed another $1 billion and accelerated its development plans.



## Biceps and basic needs

How can Mexico's oil best be used to develop the country? The kind of industrial development pursued in Mexico from 1940 to 1970 suggests one way. To elaborate on Mr Diaz Serrano's metaphor quoted earlier this would be to build the oil and gas biceps and let them pull the rest of the frail body up to a higher standard of life. The other kind of development, pursued sporadically in Mexico since the revolution, is to try to increase the standard of life of the people directly by giving them the right sort of survival kit for meeting their basic needs: land, education, nutrition and water.

The "basic needs approach" is gaining ground in aid institutions like the World Bank because of disillusionment with previous models of development. The "go - for - growth - of - incomes" model, where success was gauged by the growth in gross domestic product, led to an affluent modern industrial sector with the political clout to protect itself from the taxes government needed to levy so as to distribute some of the benefits of growth to the rest of the country.

So then there came the "create jobs" model (which, interestingly enough, has come back into vogue in "developed" countries with the failure of growth-generating policies there). But it gradually became clear that the concept of employment in an industrialised country did not have the same relevance in developing countries which are short of productive activity rather than paid work. And such activity is the result of many things—motivation, knowledge, strength, organisation, land ownership. Further, those people that need most help are not only the unemployed or underemployed but the unemployables: the aged or infirm.

The "basic needs approach" is not incompatible with other models of development. Indeed, for those who are to attend to basic needs, be they government agencies or self-help co-operatives, to have the resources to do so on a continuing basis there must exist a functioning economy with factories, cement plants, dams and all the rest. But what the "basic needs approach" does do is to ensure that the right questions get posed all the time: how many people will benefit from "development"? Can less money be spent more effectively on reaching those in need with a steel works on the coast or a pottery workshop and distribution organisations inland?

The budget for 1978, and the five-year plan also unveiled last December (long-term plans in Mexico end with the term of the current president) show that the government is eclectically drawing on all development models and approaches at the same time, but is to concentrate on bicep-building. Rather too much. How many jobs will be created from the $20 billion investment in oil and oil-related industries? Precious few. For example, at Cactus, 5,000 building workers are constructing the plants, but only 2,000 will be required to operate them. There an investment of $250,000 is needed to produce each extra job. However, the revenues from methane, and the cheap supply of the other chemicals obtained, make Cactus a sensible project. It is sensible to get crude oil out of the ground fast to end Mexico's balance-of-trade deficit. It is sensible to increase refinery capacity and export refined products instead of importing them. It is sensible to make liquid gas in Mexico rather than import it. But when other oil producers are diving headlong downstream into petrochemicals, it is not wise to follow them, especially as Pemex will be fully stretched doing everything else.

The counter-argument is that an integrated oil and petrochemical development is needed to get the maximum added-value from hydrocarbons. There are two answers to that: settle for less than the maximum; or take the oil and associated gas out of the ground more slowly. Helter-skelter investment will bring a huge and unexpected import bill in its wake. Project managers will get frustrated by the innumerable bottlenecks in Mexico's supporting industries and will import what they need to get the job finished on time. Pemex is importing the steel plate it needs for the gas pipeline to the north because it could not wait until the steel plate mill under construction in Mexico was finished. This particular decision looked right while the deal to sell gas to the United States was on. There will be countless others where what seems right in the short term brings no long-term benefit. Iran, Nigeria and Venezuela embarked on huge projects out of scale with their human resources and their existing industrial infrastructure. Mexico is far advanced on both these scores, but not so far that it can ignore their lessons. Beefcake biceps are expensive but not necessarily strong.

# Safety valve

"The *bracero* movement has served as a partial though temporary solution of the agrarian problem in the village. Tepoztlan has become dependent on the United States economy. Were the United States suddenly to close its borders to Mexican *braceros*, there would probably be a crisis both in the village and in the nation." So wrote Oscar Lewis, in 1956, after revisiting Tepoztlan, the village he had studied in 1943.

When Oscar Lewis first went to Tepoztlan in the early 1940s the population of Mexico was 20m and of the village 3,500. When he went back in 1956 the figures were 30m and 4,800 respectively. Twenty years later, both have more than doubled, but in spite of the fact that the *bracero* programme—under which Mexicans were legally allowed in to the United States to do temporary work—was ended at the insistence of American unions, in 1964, there has not been a crisis in the village or the nation. Why? Because the Mexicans have continued to go to the United States—illegally. But the prophecy of Oscar Lewis, whose "Children of Sanchez" have by now bred hundreds of children and grandchildren, would still come true were the Americans to find a way of keeping out the "illegal aliens" (as Americans call them politely), or "wetbacks" (impolitely referring to the swim across the Rio Grande) or "undocumented migrants" (as the Mexicans call them).

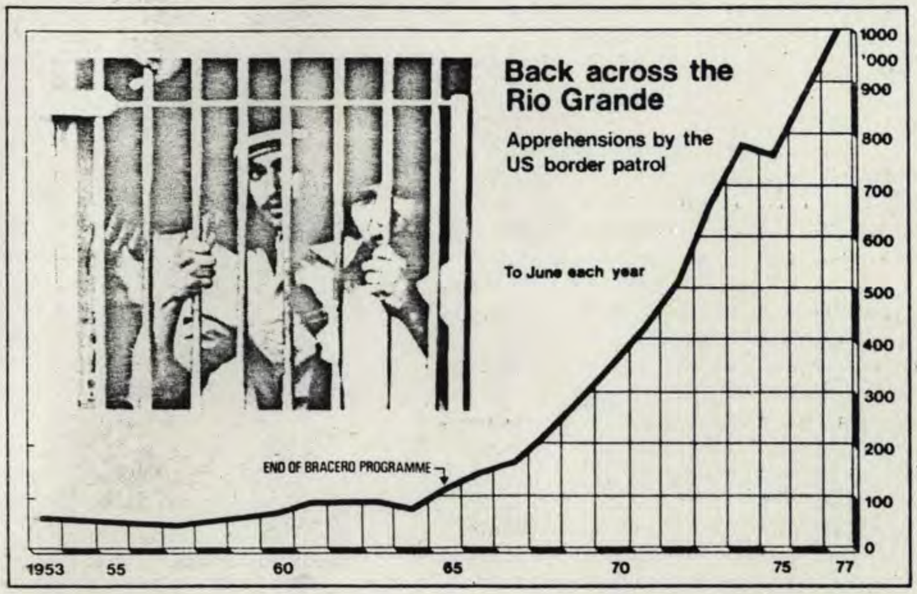
It is simply not known how many Mexicans are in the United States illegally; they do not advertise their presence. But the American passion for quantification has resulted in figures that gain credibility simply by being used and re-used in reports and newspaper articles. The commonly used figure is 8m illegal aliens, of whom 5m are said to be Mexican. The basis for this statistic is a study conducted for the immigration and naturalisation service (INS) in 1975 by a firm of consultants in Washington, DC called Lesko Associates. Lesko's methods were peculiar. A panel of seven professionals in the business of dealing with illegal aliens was asked to estimate the number of illegal aliens in the United States in three rounds. In the first round, the range was from 2.5m to 25.1m, and even by third round was 4m-12m. This piece of guesswork, glorified by the name of the Delphi method, was supplemented by other techniques that have been crushingly criticised by the director of the United States bureau of the census, Mr Vincent Barabba, a group from the congressional research service and many others. Lesko also used a "complex formula", that is more guesswork, to arrive at a figure of 5.2m for the Mexican element of the illegal population. These figures are unprovable but, because they have a seemingly scientific basis, have become the common currency of the debate on illegal immigrants within the United States.

Since figures, however misleading, are treated with respect in the United States, the quite large numbers enhance and promote illegal immigration as a "problem". Such figures seem to give credence to the newspaper headlines of a "silent invasion", or worse: "State is Threatened by Alien Hordes" screamed the Los Angeles Herald Examiner on August 8, 1977.

There is only one firm statistic: the number of illegal aliens caught by the INS border patrol. This figure has risen in the past few years to about 1m a year. For each person caught (sometimes the same person is caught several times), others slip through, but again, how many is not known: rules of thumb for the ratio of those caught to those not cannot be trusted.

Research is being carried out in the Mexican states from which many of the migrants come to try to assess the numbers that go across the border. Until that is completed, it is better to use no figures at all on the size of the migration. Much more is known about its nature. According to the leading expert in the United States, Mr Wayne Cornelius of the Massachusetts Institute of Technology, the immigrants go temporarily, just as they used to under the *bracero* programme. So this immigration is not like the permanent immigration into the United States by people coming to the land of opportunity. Mr Cornelius asked a sample of Mexicans whether they would prefer to settle legally in the United States or to come and go legally: 74% chose the latter. They go to earn dollars to send or take home. These dollars put them at the bottom of the social and economic scale in the United States, but well above subsistence level when converted into pesos at home.

Mass temporary migration from Mexico to the United States is a perfect economic tonic for both countries. The Mexicans leave the overcrowded land (and they come overwhelmingly from the rural areas in Mexico), and send back enough money to keep their dependants. Some return with enough capital to buy a few cows or start up a trade. Mr Cornelius reckons that Mexico gets several billion dollars a year from its migrants. The farmers in California, Texas and Florida are provided with workers who are willing and able to do back-breaking labour, and thus can give the American housewife grapes and lettuces cheaper than they would otherwise be. Mexicans



are battling against inflation in restaurants, sweatshops, garages and factories all over the United States—illegally.

Whereas on the continent of Europe the anti-inflationary impact of guest workers has been thoroughly understood (and nowhere better than in West Germany and Switzerland, which have the lowest inflation rates in Europe), several groups in the United States have begun to take up the anti-wetback outcry which is never long dormant. This time round, even the Ku Klux Klan is getting in on the act in a shrewd move to keep up with the prejudices of the times: it organised one or two well-publicised vigilante patrols along a few yards of the 1,950-mile long border.

The unions draw attention to the number of unemployed and the number of illegal aliens supposedly in the country and conclude that there is a causal connection. Mr Cornelius has found—and he and others have looked—no evidence to show that Mexicans take jobs from natives. They take the jobs the natives will not do. Ah, say the unions—if the employers could not count on the illegal immigrants, they would have to pay an attractive wage. But it is more likely that America's farmers at least would change to a less labour-intensive crop.

The Mexican-Americans—the *Chicanos*—have mixed feelings about their undocumented cousins. Some claim that the illegal aliens compete for jobs with them, even if not with white workers, and that their presence makes other Americans discriminate against all Mexican types indiscriminately. Other *Chicanos*, looking ahead to the day that all 12m Hispanics in the United States coalesce into a minority group able to exert pressure, welcome the addition to the numbers.

A few politicians have tried to make an issue of the wetbacks. In Texas an ignored fifth of the state's population is Mexican-American and a lot of people do not want a raft of illegal Mexicans changing the racial balance of the state any further. Senator Lloyd Bentsen has proposed giving the five Mexican states from which at least half the illegal migrants come a huge dollop of cash. That at least is logical, for the cure has to be within Mexico.

The illegal aliens were a very minor issue in Mr Carter's campaign. No great head of steam had built up, no pressure group had started a tough campaign. In the American states with the most illegal aliens the unions are weak. But it is an affront to law-abiding citizens to have so many (and they are repeatedly told that there are indeed many) non-citizens in their midst. President Carter decided that benign neglect had to end, and last August sent a package of measures to congress.

They are misconceived from nearly every angle. They would be costly, cannot possibly work and, if they did, would cause a disaster in Mexico. Mexico was not even consulted even though a joint commission to discuss mutual problems had been set up between them in an attempt to improve relations between the two countries. The measures would make it an offence punishable by fines for employers to hire illegal aliens. This would require a massive apparatus of enforcement. But to the extent that it is a deterrent, it would deter employers from hiring anyone who looks Mexican. Then to keep the Mexicans to their side of the border, the border patrol would be doubled to 4,000. The border is geographically difficult to cross for only 40 miles, and the border patrol can keep an eye on only 200 miles of it at a time now. Illegal aliens who can prove continuous residence in the United States since before 1970 would be given an amnesty. Very few could do that legally, so this is an invitation to forgery. Those who came between 1970 and the end of 1976 could claim "temporary resident alien" status for five years—they could work but not get any welfare—at the end of which they could still be booted out. No Mexican in his right mind would take the risk of registering.

President Carter's approach of trying to provide domestic remedies for illegal immigration from Mexico is, as senior American officials will privately admit, doomed to failure. Short of building a fence along its entire length, and thereby constructing a symbolic iron curtain with Latin America, it is impossible for the Americans to keep the Mexicans out. When it comes to bridging the gulf between the rich and the poor, the Mexicans speak in the north-south dialogue with their feet. As Mr Cornelius puts it: "One of my subjects, who had been apprehended by the INS for the third time, was asked: 'What can we do to prevent you from doing this again?' The illegal responded: 'Shoot me'."

The United States is a safety valve for Mexico. If the United States tried to close it off, and found a way of succeeding, there would be an explosion in Mexico. The reverberations would be felt throughout the hemisphere. Mexico is the sanest and freest sizeable country in Latin America. It is in the interests of the United States to keep it that way. Were Mexico to follow other Latin American countries down the road to a despotism of the right, such a regime would, given Mexico's revolutionary antecedents, eventually be replaced by a despotism of the left. Cuba is only 100 miles away from the Mexican coast.

The very best thing the United States could do to solve the "problem" of the illegal aliens is by legalising them. The *bracero* programme should be started up again, and on a generous basis, otherwise there will still be illegal aliens. This time instead of indenturing the *bracero* to a named employer, and thus making a serf of him, the *bracero* should be free to work for a limited amount of time anywhere in the United States. After all, the population of the United States is not growing much and is ageing. It will increasingly need guest workers to do its dirty jobs.

However, this is not the solution favoured by the chief adviser to the Mexican government on immigration, Mr Jorge Bustamente, of the Colegio de Mexico. He thinks legalisation would accentuate the flow, and let the government off the hook of trying to find solutions to unemployment and poverty within Mexico. What solutions are there?

*But where will they find work?*

# Some problems even have solutions

The urge to use oil money to bring a speedy end to underdevelopment is understandable. But oil cannot solve most of Mexico's problems. Mexicans leave Mexico because there is not enough land for them, and no amount of land redistribution can make enough; because there are not enough jobs, and oil cannot create enough; because jobs are in the cities and are subsistence jobs, and the cities are becoming Calcuttas; and because there are too many Mexicans in Mexico. In this prescriptive part of the survey some solutions are proposed to some of these problems.

The roots of Mexico's poverty lie in the land. About 40% of the population lives on the land and tries to live off it. But only 10% of the gross domestic product comes from agriculture. Since 1968, the rate of growth of production has slowed down. The production of corn (maize), still the prime source of sustenance for Mexicans as it has been for several millenia, has fluctuated between 8m and 10m tonnes a year. About 17m acres are cultivated with maize, so the average yield is as low as half a tonne or so an acre (compared with 2¼ tonnes an acre in the United States). Maize has sometimes had to be imported to prevent consumption per head falling too far below 200 kilos a year. The production of beans, the prime source of protein, has remained static too, at about 1m tonnes: 15 kilos a head a year. Wheat production, for which Mexico is on the whole better suited than for growing maize, has been rising.

The land is overworked and overpopulated. It is subdivided into too many plots. Fertiliser has been expensive. Many tracts of land are idle because of ancient disputes over title. The agencies set up to help the farmers were neglected and became bureaucratic and corrupt. It is in the rural areas that the anti-birth-control propaganda of the priests is most effective.

How can more enlightened attitudes, knowledge, services and money, in that order, be spread to about 25m souls in 94,000 communities?

Mexico has a couple of pioneering experiments, Prodesch and Pider, trying to do just that. In San Cristobal de las Casas, an organisation with the acronym Prodesch was started in 1970 by the state governor of Chiapas to help the Indians help themselves. It is financed by the United Nations and the World Bank. Grouped under one roof, the relevant offices of the state and federal governments are to be found: health, education, farming, rural industries. Prodesch has a radio station and it broadcasts all day in the four local Indian dialects and in Spanish, with news about the services available from Prodesch, the courses it runs and birth-control propaganda. It also has a record request programme which, judging by the bulging racks of letters in the studio, is popular. The philosophy is to tell the Indians what is available, and then get them to come and ask for the help they need. To find local leaders, Prodesch helps to organise clubs in the villages—for women, for the young, for all kinds of activities. The leaders are brought in and given courses, and then go back to their villages.

According to a young French volunteer, in the seven years since the programme started, maize production has gone up from 450 to 1,500 kilos a hectare through the introduction of terracing and fertilisers. The experts are trying to persuade the villages to convert from maize, for which the soil is not suited, to fruit. But corn has a prestige and cultural significance that oranges do not have.

The courtyard of Prodesch is crowded with Indians who have come to ask for this and that. The director, himself an Indian, has won the trust of the Indians; and the programme has got the blessing of its sponsoring aid agencies: the director has now gone to another poor state, Oaxaca, to start another one up, and there is to be a third in Quintana Roo.

Pider—the programme for integrated rural development—is on a far larger scale and is a pet project of the World Bank, which feels rather guilty for having financed many large-scale irrigation projects and farming developments that have benefited the better organised farmers. It was started in 1968 to overcome the diseconomies of scale that resulted from having different government agencies do things in an unco-ordinated way: the dam builders would build the dam, but then the road builders would build a road that did not lead to it. The idea is to find the poorest micro-regions in the poorest states and to raise the standard of living in them. This is the basic needs approach at its most basic.

Pider is not itself an agency, but a co-ordinating department within the ministry of planning and the budget. In Mexico City there are 100 bureaucrats to oversee it, and 300 are outside monitoring it and signing the cheques. In 1978, Pider will be handing out $240m, of which half is to

*No money to buy them*

come from the World Bank. The drawback with Pider is that once the state has come in to sign the cheques, it never seems to stop. But it is cheaper to pay people to do things that will improve their standard of living in the countryside than to try to provide them with jobs and services in the cities.

Conasupo, another pioneering Mexican institution—Mexico is an ingenious institution builder—was invented to buy staple foodstuffs from farmers at guaranteed prices and sell the produce in Conasupo shops to urban dwellers at sometimes subsidised prices. Politicians too often succumbed to pressure to keep urban food prices low and therefore did not pay the farmers enough and so production suffered. This is now being put right, but the townspeople are getting angry at the rising prices of tortillas. It would be quite sensible for the government to use some of its oil revenues to subsidise basic foodstuffs while paying the farmers more. It is an effective way of giving help most directly to the poor—provided it does not get out of hand.

The rural credit bank was given a facelift under President Echeverria, but it still has a poor reputation. However, your correspondent paid an unannounced call on the manager of the rural credit bank in Ciudad Obregon in the state of Sonora, and was impressed. In November, 1976, Sonora was the scene of land invasions by peasants, an invasion which had been encouraged by Mr Echeverria but then went out of control. The coastal plain of Sonora is fertile and has been criss-crossed by a vast irrigation scheme. To the chagrin of the peasants, private farmers have evaded the law that allows a person a maximum of 100 hectares by buying land in the names of all their numerous families. These large farms are highly productive, but do not employ many people. To the land hungry, this is glaring injustice, however much good it may do the balance of payments (it is the private farms that have developed the lucrative export of strawberries and tomatoes to the United States). So in they marched. The authorities went ahead and legally expropriated 94,000 acres and formed 88 new *ejidos* (which is a form of land tenure re-invented in the revolution under which individuals have security of tenure to work the land, even though the land itself still belongs to the state). About 8,000 families were allocated land on the basis of 12 acres each. (The authorities later investigated the families and decided that 2,200 of them, who had been on waiting lists for land for decades, could no longer be classified as *campesinos*, so off they had to go.) To avoid the problems associated with small peasant holdings the *ejidos* are all being worked on a collective basis. It became clear in talking to the Ciudad Obregon bank manager, that the bank and the local branch of the ministry of agricultural reform keep a very tight check over the production plans, performance and expenditure of the *ejidos*. The result has been that the yields in 1977 were as high as in the year before expropriation, and rather more families than before can live off the land. The bank manager was impressive—perhaps he was a high flyer drafted into a particularly sensitive area.

Sonora is a state where things are efficient, even the *ejidos*. But in most of Mexico the *ejidos* are not collective and are in a desperate state. Since the farmers do not own their parcels of land, they cannot sell them and the land has to support more and more people. A solution to this failure of socialism has been proposed by the capitalists of Monterrey. It is to form corporations. The *ejidotarios* would put their land in, and become joint owners, and be paid a guaranteed minimum wage plus a share of sales. The corporation would bring capital and manage the land as one big unit. It would say who worked and how. Those for whom there was no work would be paid rent. The optimum size would be about 5,000 acres. The Monterrey experts are confident that such a scheme would increase production by 400%.

This is a good idea. But its Monterrey origins will damn it in the eyes of the sociologists at the Colegio de Mexico, Mexico's leading academic institution, who while rightly attacking the neglect of the *ejidos* in the past have a rather starry-eyed view of how they could be made to work as collectives in the future.

## Trapping the tourists

Mexico, bordered by 214m Americans, has 3.3m tourists a year (3.1m when it is nasty to Zionism). Spain, bordered by 260m wealthy Europeans, has 30m tourists. It would be a terrible pity if Mexico despoiled itself in the way Spain has done. Package tourists are never charged for the depreciation of beauty; they come, hotels are overbuilt, and then they leave, searching for somewhere else unspoilt. The far-sighted policy is to maintain beauty by avoiding the cheap and the quick and by building in a more expensive and careful way. Just such a policy has been carried out at Cancun, a model of careful planning, with about as much soul as rather good modern architecture can create. A huge tourist city has been built on a spit of sand that juts out into the Caribbean. There is a town (much livelier than concrete Cancun proper) where those who service the hotels and apartments live and run small businesses.

Other Cancuns could be built, but they are capital intensive, and cater for the tourist with a fair amount of money to spend. The tourist authorities should visit the Greek islands to see how to tap the less affluent tourist market without doing a Spain. There the bulk of the tourists are accommodated in the houses of the islanders. The islanders can build larger homes, so they benefit directly from the presence of the tourists, rather than some Miami-based hotel corporation. The scale of development is in keeping with the locality. This should, for example, be tried on the lovely Isla Mujeres, where the Cancunites go to see real people, and which is in danger of becoming Cancunised.

The Yucatan peninsula is relatively underdeveloped for tourism. It badly needs something since its traditional industry, sisal, is in decline. Yucatan is much closer to Miami and New Orleans than is Mexico City or Acapulco and contains many of Mexico's most under-utilised investments: the ruined Mayan cities. There are at least 1,000 of them in the Yucatan peninsula and in Chiapas and Tabasco. There are good roads to the main reconstructed sites like Chichen Itzá, Uxmal and Palenque, all of which are spectacular, but Yaxchilan, for example, deep in the jungle near Guatemala, has to be reached by light aircraft.

Reconstruction and just keeping the jungle at bay is expensive. But entry to the sites is ludicrously cheap. Ticket prices should be raised (with a cut price day each week so that Mexicans are not priced out of their cultural heritage). The tourist authorities should organise archaeological work camps and get youngsters to pay to live in tents and work


*Candied skulls for the day of the dead* under the blazing sun. It would be a mistake to build more than a handful of expensive hotels. The people interested in exploring Mayan sites (and that is all there is to see inland) could probably better be catered for by building comfortable Mayan straw-roofed huts.

## Magnetic

Mexico City is a magnet. About 43% of its 12m-13m people were not born there but came in the hope of a slightly better life. Many live on that hope and big city excitement, but on little else. Unless other magnets are placed elsewhere in Mexico, Mexico City will become by far the largest city in the world by 2000, with a population of 25m-30m.

Mexico City is in the wrong place to be a megalopolis. It is the only large city in the world that is not on a major river, on a lake or on the sea. It is, in fact, in a valley 7,000 feet above sea level. The floor of the valley is soft volcanic ash, and the water table has been so thoroughly drained that the floor is subsiding. The sides of the valley prevent winds from sweeping smog away, and so the ceiling of the valley is a low, filthy cloud of dirt.

The costs of making a larger Mexico City tolerable are intolerable. Its water supply, 45 cubic metres a second, is just adequate for its current population. To raise that by just one cubic metre a second would cost $40m as pipes have to be laid up and down mountains to tap new sources 200 miles away. The city needs a proper sewage system: that, too, would cost millions. Pollution and the traffic jams on the highways are dense, so the city is planning to extend its fine metro and would like to build a suburban line as well if the money can be found.

Mayor Hank Gonzales is faced with a cruel dilemma. All the city's services need to be dramatically improved; but the more that is spent on making the city livable, the more attractive the city becomes. During the 1960s, roads in the city were widened, underpasses and superhighways were created. The traffic jams are as bad as ever. The net effect of creating a city fit for cars was that more cars came. If the city is made fit for humans, more of them will come. The cruel solution for Mexico City is that all the money earmarked for spending on Mexico City should be spent on the infrastructure for new cities elsewhere.

The government, scattered around this glued-up city, seems to be aware of the problem. The old ministry of public works has been symbolically renamed the ministry of human settlements, and the imaginative architect, Mr Pedro Ramirez Vasquez, has been placed at its head. The

*Mayor Hank reaches out*

planners at the ministry want new cities along both coasts, and along axes linking the coasts. The World Bank's planners think industry and cities should be developed along the main pipelines carrying natural gas and oil; the ministry for industry is thinking of selling natural gas dirt cheap in certain places along the pipeline where it thinks new industries should grow. Others suggest a more hodge-podge plan because cities that grow naturally, but with a little help, will be more successful than ones planted where a planner's computer says.

For all the fervent planning, the budget for 1978 allocates hardly any money to the infrastructure that will be needed. Just consider that all the Mexicans—say 60m, or five times the present population of Mexico City—who will be born in the next 50 years will have to live in cities because the land is full up. The most cost-effective measures to curb the growth of Mexico City and encourage the growth of new cities would probably include the following:

- Instead of increasing the water supply, rationing should be introduced. In the wealthy parts of town it is quite common for the family cars to be washed every day with tap water. The water is now metered, but costs are geared to the poor, and the rich can still afford their car washes. Ideally, there would be a progressive charge for water consumption. But it is far too difficult to install a system for the millions of households in the city that would both be tamper-proof and corruption proof. Water should be cut off for several hours a day except for standpipes in the streets. There is an emergency in Mexico City; but the rich are insulated from it.
- The administration is trying to move itself and industry out of Mexico City. If, for example, the headquarters of Pemex were moved down to Villahermosa, near its new oilfields, that town would soon have the most expensive restaurants in Mexico. Concentrate on moving organisations with fat current expenditures out of the city, as that will generate local incomes faster than building dams or factories or the other customary artifacts of "regional policies".
- All permits for new industry and expansion of existing industry in Mexico City should be banned. The social costs of bringing in all the raw materials and foods to Mexico City and of taking out all the finished products are borne by consumers, many of whom have to be subsidised one way or another. The city sucks in tax revenue, and it is quite uneconomically used up on things—water, electricity, transport—that would be a fraction of the cost elsewhere.

As Mexico City grows, its diseconomies will grow faster. Anything that makes the city a more pleasant place in which to live will be self-defeating.

## Resourcefulness

Mexico is rich in resources—phosphates, uranium, copper and more—that could be put to good use given time and organisation. Besides the fish that have not been fished and the minerals that have not been dug out, there is the still relatively untapped resource of the border with the richest country in the world. The more goods that go across it, the fewer illegal aliens will need to do so.

If the Japanese had invaded Mexico, all their industry would be strung out along the border with the United States. The Mexicans have their industry up in the mountains in Mexico City and Guadalajara, miles from the United States, miles from a port from which to export.

In part this is because the government has deliberately encouraged import substitution and thereby directed all its incentive schemes towards satisfying the domestic market rather than grabbing exports. Thus there are nine car plants each inefficiently assembling too many models which emerge at the end of the assembly line costing twice as much as they do in Detroit. Local manufacturers have been too cosseted and should be told that protection will cease at the end of 1982. This originally was on the president's agenda, but less and less is heard of it.

The exchange rate should be kept in line with the relative inflation rates in the United States and Mexico. This will actually be quite hard since the smell of oil, and its appearance in the trade figures, could exert an upward pressure on the peso. This would undermine the competitiveness of export industries, deter tourists and thereby make Mexico dependent on oil. If oil were to become simply a substitute for other exports, all its benefits would be lost. Britain is in the same fix but can dampen the rise in sterling by undoing foreign exchange controls. Mexico does not have any. Thus, unusually for a developing country, it might well have to discourage investment from abroad. In recent years this has in any case been much smaller than the outflow of dividends and royalty payments. The time may come when Mexico should be trying to buy foreign technology and patent rights, rather than attracting the foreign capital in which they are embodied. Early repayment of foreign debt is another option to keep the peso down.

There is scope for the expansion of the *maquiladoras* programme, a suitable match of American knowhow and Mexican labour. The Americans put up plants in Mexico on or near the border. Materials go into the factory free of Mexican import duties and the finished products go back into the United States free of American tariffs. There are some 80,000 Mexicans working in such factories. The Mexican government is sensibly thinking of providing the additional attraction for the Americans of letting them supply the domestic market too.

# On top of the volcano

The government of Mr Lopez Portillo is moving in the right direction, but has a dilemma about the speed it should go. If it tries to solve the problems of a burgeoning population with the urgency they demand, then it risks overstretching the bureacracy, creating waste, breeding corruption and falling flat on its face. If it moves cautiously and carefully, the weight of people without jobs and without the prospect of a tolerable standard of life may crush the functioning (albeit imperfectly) democracy that Mexico has managed to build up.

Oil, a gift of the gods, is the temptation of the devil. Oil seems to offer so much so quickly. It has led to a sudden change in the credit rating accorded to Mexico; it provides a way of lifting the $25 billion burden of foreign debt; at a stroke it removes the balance-of-payments constraint from speedier development; it holds out the possibility of a new petrochemical industry; it might give Mexico some leverage with the United States. Oil is an argument for speed.

Oil may worsen the corruption that is endemic in Mexico; it may make the Mexican people, who are deeply cynical about the disinterestedness of their rulers, demand a rise in their living standards as rapid as in that of the *politicos* and the bosses. Apathy rather than disaffection is the prevailing mood of Mexico—at the moment. The Mexicans are not anxious to have another revolution: millions of people lost their lives in the earlier one. On the other hand, if you've had one revolution, then. . . In Mexico's shrewd form of democracy, trouble has been bought off, or squashed, with great success—so far.

Mexico's problems are too great to be solved by Mexico alone. Although it counts among the middle-income category of developing countries, the unevenness in the distribution of income leaves the mass of Mexicans very poorly off. The rural poor have adopted a form of self-help that the United States, a nation founded on the hope of immigrants, should be better placed to understand than any other in the world. These poor have been flocking into the United States to find jobs, and have been getting the jobs the grandchildren of America's immigrants no longer want to do. What is more, by far the greater part of these Mexicans do not want to stay in the United States. They want to earn enough to come back and be relatively well off in Mexico. Since there are too many people in Mexico for Mexico's economic structure to employ, it is far-fetched to believe that Mexico, even with oil, can instantly find a way of keeping its rural poor rural and less poor. The task of education, of organisation and of management, which expands the economic structure, is one that will take time. And all the time, the educators, the organisers and the managers are running on the same spot to keep up with more minds to educate, more mouths to feed.

Whereas the Americans feel that they can make the future, Mexicans tend simply to accept it. But this fatalism, born of hardship, is a strength, too: Mexicans can put up with hardships that Americans would find intolerable. And in the years before oil can fertilise the countryside, many of the too-many Mexicans will suffer. This gives existence in Mexico a dramatic and harsh dimension that has made great literature and great art—and that detracts from, but also adds to, the quality of life.

*Shoe-shine democracy*

U.S. Export Potential

manufactured exports: large elec. motors; small refrig.; textiles; leather goods (if qual. improve); capital goods;

Agri products (face quotas [illegible] + "discretionary" non-tariff barriers)

European & Japanese Mkt

Latin Amer. Mkt

Import sub. - have completed transition except for capital goods

need to liberalize imports to stimulate efficiency (have elim. non-tariff barriers on 3000 [relatively minor] of 9000 items)

Faced with very poor soils, weak ~~the~~ institutions, & recurring [illegible] problems,

Yucatan – in the 19th century, with an economy based on sisal, ~~[illegible]~~ ~~in~~ benefitting from rapidly rising demand as grain harvesting techniques in the US ~~began~~ shifted to use of sisal ties, & produced on large plantations by near "slave" labor, one of the richest areas of Mexico, is now one of the poorest. With competition from synthetics, sisal prices are weak ~~and~~ labor/hand rates are high, & income per capita even with the Fed govt subsidizing 50% of the price paid to farmers extremely low; the govt has not yet ~~conceived of or~~ begun to implement ~~a satisfactory~~, or even to conceive of, a plan to make the economy viable.

Tabasco – a relatively poor state, with average income p.c., before the effect of petroleum production, of less than 60% the nat'l avg, now ~~[illegible]~~ accounts for 63% of the nation's oil & gas output. Already the oil boom is seriously distorting the state's economy: wages for unskilled oil workers amount to approximately \$5000 p.a. (compared to \$250–350 p.a. for the sisal workers' 40 day year in nearby Yucatan); as a result ~~[illegible]~~ the state has raised state employee salaries 60% a yr for each of the past 2 yrs & the Governor believes similar increases will be required in each of the remaining 3 yrs of his term. Such pressures lead to a state-wide inflation 30% above the nat'l average.