

Dateline Mexico by Carlos Cota Meza

An 'economic miracle' on borrowed time

The Mexican government can play the fool, but that won't change the reality of enormous current accounts deficits.

Mexico is currently running an enormous deficit in its current account—the measure of the total value of exports, minus that of imports, plus the balance, positive or negative, of tourist expenditures, freight costs, interest payments, and other services. A current account deficit means that more money is leaving the country than is coming in.

Incredibly, the government forecast a \$4.3 billion current account deficit for 1990, and wound up with a \$6.35 billion one; and a \$6.1 billion deficit for 1992, but will end up with one of over \$11 billion, 80% higher than anticipated. For 1992, the government is assuming a \$13 billion deficit, a further 16.6% increase from 1991, and all observers expect a similar degree of underestimation.

In 1990 and 1991, the government financed this immense imbalance by having a net inflow of capital in excess of the current account deficit, which permitted the country to continue to run such deficits, and pushed foreign reserves to \$17 billion. The record is impressive: Mexico has run up the largest current account deficit in its history; the largest negative trade balance in its history; and the highest level of reserves in modern history. So, where did so many dollars come from?

The reasons for the huge inflow of capital between 1989 and 1991 are not far to seek: Capital has entered to take advantage of the policy of reprivatizing most state sector companies, to invest in government bonds newly available for foreign investors, to invest in the Mexican stock market,

presently rising at dizzying rates, to finance loans taken out by the private sector at an increasingly rapid rate, and as direct investment, although this has been the smallest category.

But the privatization program will end in 1992, and the international panorama, which has been a major factor sustaining the government's "expectations," is becoming more and more dubious, with the result that the capital inflow can be expected to decline. Not to mention the ever-present threat of a reversal of the flow and a recurrence of massive capital flight.

But the government stupidly affirms that massive imports are essential to maintain a 4% growth rate of Gross National Product. Just to achieve an increase in GNP about equal to the population growth in 1990, imports were \$31.1 billion, 32.8% higher than projected. In 1991, imports have been 20.7% above projections, at \$38 billion. For 1992, the government projection for imports is \$41.6 billion, almost impossible to achieve.

The "economic success" which the government claims to have achieved is based on a huge miscalculation. The very existence of such large deficits is proof positive that the Mexican "model" is really just a disaster waiting to happen, once certain short-term factors cease to exist.

Three such factors keep the government foolishly convinced of the permanent and unlimited support from the international financial community. The first is that the Mexican economy has "overachieved" the austere conditionalities set by the Inter-

national Monetary Fund. According to sources in the Finance Ministry, this is supposed to inspire confidence.

The second factor is the supposition that since the February 1990, Brady Plan restructuring of Mexico's debt, bankers have full confidence in the Mexican economy. The truth is that more and more bankers are recognizing the fragility of Mexican finances and economy, precisely because of the huge deficits being run and the speculative nature of the dollars flooding in to cover them, as evidenced by the recent Standard and Poor's warning that Mexico could face default if and when the money flows dry up, or even reverse.

With debt service payments of \$12-15 billion due in 1992 and 1993, the international financial organizations are beginning to disbelieve in the "Mexican miracle" and are starting to warn about the reappearance of the "specter of default." The outside date for this explosion of the debt bomb is 1993.

The third element is the "Tony Ortiz Mena" factor—a reference to methods used by Antonio Ortiz Mena, former head of the Inter-American Development Bank, who resigned that post to return to Mexico and work on President Carlos Salinas de Gortari's 1988 election campaign. In the deep recession of the U.S. economy in the late 1950s, Ortiz Mena, finance secretary to two Presidents, maintained a flow of dollars into Mexico by offering financial yields much higher than in the United States, just as Mexico offers now.

Ortiz Mena achieved this by his close relationship with the American "institutional investors." The mistake which Mexico's current technocrats are making, however, is that what is occurring in the U.S. today is no mere recession, but a depression worse than that of the 1930s.