

# Mexico's President Zedillo bums his bridges while in Britain

by Carlos Cota Meza and Gretchen Small

Mexican President Ernesto Zedillo has been encouraged, urged, and pressured by national institutional forces, with increasing intensity over recent months, to recognize that Mexico's continued existence as a nation requires that his government change economic course, and that he rally the country behind a program to secure domestic growth. The President had not acceded to those demands, but had left the door open.

Then, Zedillo visited Europe, on Jan. 27 to Feb. 5. The centerpiece of his trip was a stop in Great Britain, where the Mexican President met with the powers-that-be in London. There, and in that other center of international usury, Switzerland, he gave an emphatic answer to the folks back home: No change in course!

The President's European trip marks a dangerous turning point for Mexico. What international support the Mexican President imagines he might have gained by this strategy, may soon prove his undoing where it matters, in Mexico, when the next wave of the building international financial firestorm hits his country.

Concretely, the trip produced three major concessions to international usury. While in Europe, President Zedillo announced that he had given the go-ahead for the sell-off of the petrochemical division of the State oil company PEMEX, and also ordered an acceleration of plans to open the government's pension and social security funds to private looting. Back home, the Finance Ministry announced that, in March, the government plans to issue \$2-5 billion in new international bonds, modelled on the dollar-denominated *Tesobonos* issued by the previous government of Carlos Salinas. It was the collapse of those *Tesobonos* that triggered the December 1994 crash of Mexico's financial system.

More dangerous to the national existence of Mexico than those devastating policies, however, is Zedillo's strident declaration, made to the World Economic Forum meeting in Davos, Switzerland, that morality cannot be permitted to interfere with policies imposed by the International Monetary Fund (IMF) and allied institutions.

## Kowtowing to virtual reality

The President dutifully centered his speech to the Davos confab on the three themes which the majority of the interna-

tional financial oligarchy wish to hear.

First, that "the threat of insolvency and a collapse of the financial system has now disappeared." This ridiculous pronouncement is not the product of the Mexican President's own intellectual efforts, but echoes the line put forward by the New York Council on Foreign Relations, in Ethan B. Kapstein's article, "Shockproof: The End of the Financial Crisis," in the January-February 1996 issue of its journal, *Foreign Affairs*. In it, Kapstein merrily asserts that the world has successfully survived a series of grave financial crises, thanks to the smooth functioning of the built-in stabilizers of the world financial system, and that it will continue to do so.

Zedillo also stated that there are five conclusions to be drawn from "the Mexican experience," that is, the dramatic financial crack of December 1994, and subsequent economic ruin. The first of these, he asserted, is that the global integration of the financial markets and volatility of short-term capital must be taken as "a dominant reality," and, that "capital controls in no way are the answer to the risks which derive from short-term volatility."

This, too, was not an original thought. In the London *Economist's* last issue of 1995, U.S. Deputy Secretary of the Treasury Lawrence Summers argued that there are 10 lessons to be learned from "the Mexican experience." The most important lesson for Summers is, that capital inflows are a reflection of "transitory changes," while capital outflows signal problems of longer duration. The Mexican crisis, Summers claimed, demonstrated "the permanent postulates of the financial system." Summers held a private meeting with President Zedillo in Davos.

For its part, IMF documents have likewise declared that the phenomenon of radical shifts in capital flows seen in the Mexican case, raise the possibility of confronting this problem through the formation of currency boards in the so-called emerging markets. The idea of currency boards has been promoted with increasing insistence by City of London and Wall Street interests, as a way of taking domestic monetary policy entirely out of the hands of national institutions. Argentina is being held up as a model of how such currency boards serve to deal with Mexico-style capital outflows—by automatically imposing drastic credit cutbacks on the

local economy.

In the third of his five points, President Zedillo stated: "The multilateral institutions should be strengthened, their capital base broadened, and they should have full rights to pull together the necessary resources to respond to unexpected events which deserve this type of support, without being subjected to any sort of moral obstacles."

"Moral obstacles"? The only person during Zedillo's trip through Europe who raised moral considerations about what is happening to Mexico, was Pope John Paul II. Before meeting privately with Zedillo, the pope stated that "it falls to the public authorities, to ensure that the most unprotected sectors, those with the least economic resources, the peasants, the Indians, and the unemployed, do not bear the heaviest burden of the economic adjustments, so that they can live in a more dignified manner." The only place where President Zedillo was not heaped with praise for what he is doing with the national economy, was in the Vatican.

### Choosing sides

That statement by the Mexican President was also a carefully chosen answer to those inside Mexico, who have been urging him to change economic course, to give priority to the needs of Mexico's people and production ahead of the demands of the country's financial creditors—the starting point of a *moral* policy.

Although the Zedillo regime has never wavered from IMF policies, President Zedillo, a Yale-trained economist of the free-market school, had begun to worry the IMF crowd, because of his willingness to open channels to representatives from various national groups, including the Catholic Church, trade unions, members of his own ruling PRI party, and the military, who have been warning that current policies will lead to the disintegration of the nation. In November, Zedillo had told a group of Catholic bishops that, while he saw no alternative to the free trade policy which successive Mexican governments had adopted, if an alternative were found to exist, he would consider it. In January came reports from labor leaders, that the President had opened doors to them.

When the news broke that 255 legislators from the President's PRI party had sent a letter on Jan. 11 to the president of the party, demanding that the government change economic policy, and return to "dirigist economics," London insisted on an answer.

Britain knew what cards to play. The primary purpose of Zedillo's trip to Europe was to line up desperately needed foreign capital, and Great Britain is the second largest investor in Mexico, after the United States. On the eve of the trip, the London *Financial Times* sent in a reporter to press Zedillo to repudiate all talk of a change in economic philosophy.

The Mexican government had planned the President's trip, in the words of a statement issued by its embassy in

London on Jan. 24, in order to "reaffirm the close political and economic relationship between Britain and Mexico." The ministers of foreign affairs, finance, and trade and industry, as well as 15 high-level businessmen, accompanied the President.

The British oligarchy put out the welcome mat. President Zedillo met with Prime Minister John Major, various Cabinet ministers, and the governor of the Bank of England. He addressed the House of Lords, the Confederation of British Industry, the Royal Institute of International Affairs, and the editorial boards of the *Financial Times* and the *Economist*. He held a roundtable with a group of businessmen at the Bank of England; met with the chairman of the old opium bank, HongShang; spoke with a group of investment fund managers; and attended a dinner offered by the president of Barclays Bank, under the auspices of the so-called "British Invisibles."

The President's wife was invited to lunch at Kensington Palace by "Their Royal Highnesses, The Duke and Duchess of Gloucester."

The London *Times* gloated that the Mexican President was making "a clear attempt to reduce the overwhelming influence of the United States on his country." According to the *Times*, Zedillo urged the British to seize the opportunities opened by Mexico's "reforms," and called on the City of London to play a greater role in Mexico's affairs.

### Vanishing promises

Zedillo was desperate to assure his creditors that he would not change course. "Free trade works. Mexico strongly believes that free trade has been, and will continue to be, the true engine for growth. . . . Mexico has become the leading promoter of hemispheric free trade from Alaska to Tierra del Fuego," he told the Royal Institute of International Affairs. In Davos, he declared that it was "totally unwarranted, illogical, and even ridiculous" to think that Mexico's crisis was a result of the previous 12 years of those free trade policies, and suggested that the country's failure to privatize its State pension funds was the only problem. The lessons of Mexico are that liberalization is the right policy, "not only for Mexico, but for every country in the world," he raved.

Zedillo assured the *International Herald Tribune*, in an interview from Davos, that at "no moment did I believe we should abandon our economic modernization and reform program."

His ability to deliver on those promises is about as good as his assurances that "the threat of insolvency has vanished," and that Mexico has "turned the corner" on its economic crisis. He did, however, win the blessing of that overblown British agent, Henry Kissinger. After meeting privately with Zedillo on Feb. 9, Kissinger told the press that, in his view, Mexico "will be one of the most important countries in economic and political terms in the continent, and the world," if it holds to current economic policies.