Mexico set to explode again after U.S. Presidential elections

by Carlos Cota Meza

Ever since Mexico's financial meltdown in December 1994, everyone, everywhere, has been asking one question: Who's next? The International Monetary Fund (IMF) has issued repeated warnings that there will be no new rescue packages available. The World Economic Forum in Davos, Switzerland, has proposed the creation of a special contingency fund to assist other countries that face a "Mexico-style crisis." And yet, the way things are going, all signs indicate that the next country to suffer a "Mexico-style" crisis will be Mexico itself!

During President Ernesto Zedillo's recent state visit to Canada, he admitted before a group of Canadian journalists that the Mexican financial crisis was 10 times larger than the 1982 crisis, and has cost the country $70 billion, a full one-quarter of Mexico's current Gross National Product. President Zedillo offered no explanation as to how he reached that estimate; previously, he had stated that the cost was $28 billion.

Taking the President's newest figure on the "cost of the crisis," a prominent group of Mexican analysts have offered their comparative calculations: $70 billion is equivalent to the entire federal budget of 1996; it is 100 times greater than what that same budget has allocated to education; it is 10.4 times greater than the budget allocation to the Mexican Social Security Institute, and 11 times greater than this year's annual investment budget for the state oil company Pemex; it is equal to 3.5 times the amount obtained through privatization of 158 state companies during Salinas de Gortari's six years in office; it is equivalent to 90% of Mexico's 1995 exports.

But the most apt comparison was made editorially by the daily *El Financiero,* which observed that the figure of $70 billion is equivalent to "the damage caused by two nuclear bombs." The cost of the crisis, the editorial said, is comparable to if "Mexico had participated in the Second World War, and had been among the losers, paying higher costs, such as those paid by Japan."

The 'recovery' myth

After the Canadian event, the international campaign to promote Mexico's "recovery" escalated. U.S. Treasury Secretary Robert Rubin, the IMF, the Organization for Economic Cooperation and Development (OECD), Japanese bankers, and newspapers, including the *Wall Street Journal* and the *Washington Post,* all spoke about "confidence," "credibility," and Mexico's "recovery." The Clinton administration has a special interest in assuring that the Mexican bubble does not explode before the November Presidential elections, because the Republicans would certainly throw the blame his way. Thus, there was great hoopla when, in early June, the Mexican government announced that it was pre-paying $4.7 billion to the U.S. Exchange Stabilization Fund, thereby reducing its $12.5 billion debt to the U.S. government, contracted in February 1995 through Clinton's emergency rescue package, to $5.8 billion.

To make that early payment, Mexico contracted new debt: It issued $920 million in federal government bonds placed on the Japanese market, that was recently shaken by the so-called "Sumitomo scandal"; $780 million in Brady Bond collateral was freed up when those bonds were exchanged for Global Bonds, issued by the Zedillo government in April; and $3 billion in "international bank notes" were contracted at a floating interest rate. The support (or collateral) for this last operation is the same as agreed to as part of the Clinton package: Part of Mexico's oil revenues will be deposited in a special New York Federal Reserve account. In effect, the Federal Reserve, with Mexican oil money, has become the guarantor for operations to refloat the international banking system!

According to the *Wall Street Journal,* this operation is "a show of good will by the Mexican government to the U.S. government."

Adding one more floor to the speculative skyscraper from which the Mexican government will leap, it is said that the prepayment is designed "to keep open unused credit lines" of the Clinton package, in which $7.5 billion still remains. Of the IMF's extraordinary package of $17.8 billion, $6.5 billion remains. This combined remainder of $14 billion is available to be drawn on "only in case of a contingency which merits such resources."

Well, that "contingency" has now presented itself. The brokerage house Lehman Brothers states that the IMF will

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give Mexico a $1.7 billion credit, to be used as a fund to defend the peso. "We are hoping for a well-supported peso with a view to the U.S. elections," said Lehman Brothers. "After that, another 4-5% depreciation will bring the peso by year's end to 8.3 to the dollar."

The specific date Lehman Brothers suggests for the new peso devaluation is "after November," when the U.S. elections are over.

This contingency loan to support the Mexican peso can be explained by the fact that the country's international reserves do not exist. Finance Secretary Guillermo Ortiz recently stated that "the current [free float] exchange policy cannot be changed, because there are no reserves to confront any speculative assault." He stated that "the Bank of Mexico's net assets do not surpass $2 billion." The rest of the $15 billion in international reserves are on loan.

Imports rising faster than exports

In hope of persuading Mexicans that things are just fine, the Zedillo government has unveiled a new "success story" for domestic consumption. "Exports have reached an historic record," announced the Finance Ministry, which supposedly means that "export industries play an important part in the economic reactivation." The fact is, however, that Mexican imports are rising more dramatically, a reflection of the collapse of production in the country.

In May 1996, compared with the same period in 1995, exports (including from the assembly plants known as *maquiladoras*) grew by 14.5%, while imports grew 24.5%. In May 1995, for each $100 of exports, there was an equivalent amount of imports, plus a $16 surplus. In May 1996, the surplus was $7, meaning that over the course of 16 months, the trade surplus fell by 46%. Thus, Zedillo's so-called "historic record" in exports means in reality that Mexico's trade balance will become a deficit for the last quarter of 1996, and that Mexico will not have dollars to finance it, which will force another catastrophic devaluation.

Purchases of intermediate goods and capital goods represent 47.4% of the total imported, while consumer products accounted for 52.6% of all purchases from abroad. The Finance Ministry reports that this rise in imports is due to "purchases of agricultural products . . . as well as to a rise in the international price of these products."

The food crisis

Requirements for imported corn currently stand at 9 million tons. According to information released by the Mexican Agriculture Ministry, Mexico's corn imports in the first quarter of 1996 were five times greater than what they were in the same period of 1995, at a cost $1 billion higher than that spent in the same period of 1995. The international price of corn shot up 90% over the past year.

The combination of food scarcity and dollar scarcity, and reports that Mexico has used up its quota for corn imports under the North American Free Trade Agreement, has created a situation in which animal feed is now being imported for human consumption! According to the head of Mexico's National Corn Growers Union, the corn currently being purchased by Mexico's state food agency Conasupo for making tortillas, is U.S. grade No. 4, which is usually intended as animal feed and contains 60% less protein than the corn traditionally produced in Mexico. U.S. No. 4 costs $140 a ton, while corn normally imported for human consumption costs $178 a ton. The inferior corn is coming in sacks stamped 1990, and is reported to be old and damaged.

When President Zedillo announced June 4 that he would lift all restrictions on imports of cattle feed, no one imagined that the "cattle" would be the Mexican people themselves.

This year Mexico will also import 30% of its milk consumption. Prices for powdered milk have increased over 41% in the first five months of this year alone. While Mexican agriculture has been devastated by drought, and by the lack of credit to farmers, international cartel firms such as Cargill and Nestle are making a killing as they corner the market on ever more scarce food supplies.

Stall till November

The "show" in Canada, its propagandistic sequel, and the government's lunatic shell-game with its bank debts, all seem to be part of an orchestrated salvage operation designed to prevent Mexico from blowing out before the U.S. elections.

Perhaps it will work, perhaps not. But what is certain is that the problem of a trade deficit caused by an aggravated food shortage, is worsening. At the same time, the country is facing debt service payments this year of $40.8 billion (58.2% of the "cost of the crisis"), which is "the highest level in the history of the country," according to analysts at the company Ciemex/Wefa.

To console itself, the Mexican government insists that "not all the debt coming due will mean a payout of foreign exchange, since a large part of the debt is being refinanced." But it is precisely on this point that international warnings are already circulating. J.P. Morgan bank recently referred to the 66th annual report of the Bank for International Settlements, when it warned of "the risk the Mexican government is taking, by resorting to the volatile international financial markets to apply its strategies of repayment and restructuring of its $171 billion public debt," equivalent to 60% of its GNP. Mexico is indebting itself with flows of volatile capital "which other countries are rejecting," to pay its onerous foreign debt.

This debt restructuring can only result in the accelerated growth of the foreign debt itself. When, how, and by whom will these debts get paid? The most chilling thought of all, is that President Zedillo has repeatedly said that he will do absolutely nothing to remedy this situation.