Refocusing Interpretation on the Mexican Political Economy
By **James W. Wilkie**

Mexico Policy News, No. 4 Spring 1990
http://profmex.org/Mexico_Policy_News/Mexico_Policy_News_no_4_spring_1990.pdf

The renegotiation of the Mexican foreign debt in early 1990 raises the question not only of the meaning of how financial matters have been settled but how the debt settlement fits into the larger Mexican political and economic scene. Let us reexamine some major issues.

With the January 1990 U.S. Treasury Department having facilitated renegotiation of Mexico's public sector debt to some 450 commercial banks around the world, the March 1989 Brady Plan (developed by U.S. Treasury Secretary Nicholas F. Brady) finally came to fruition after ten months. The amount negotiated with private banks was 48 billion dollars (rather than the 54 billion proposed) as follows: Banks holding 49 percent (24 billion of the 48 billion dollars) opted to take bonds at interest reduced to 6.25 percent; banks holding 41 percent (19 billion) took bonds worth 65 percent of their nominal value, or 12.4 billion; and banks holding 10 percent (4.8 billion) agreed to increase by 25 percent, or 1.2 billion, their loans at higher interest rates.

The results of the Mexican debt agreement have been interpreted differently by U.S. and Mexican financial observers. A major U.S. view holds that the 48 billion negotiated will not be much reduced because new loans to Mexico are required-see Peter Truell, "Mexico-Creditor Banks Complete Talks Covering $48 Billion of Debt," Wall Street Journal, January 11, 1990. If the figures in this view are correct, the result would be a net reduction of only 3 or 4 billion against the 48 billion total. Although Mexico will make a substantial saving in reduction of interest and will gain 1.2 billion in fresh loans, then, it will also have to borrow 3 billion in international agency and Japanese loans to buy United States-backed zero coupon bonds as well acquire the 1.2 billion in new private bank debt.

In a major Mexican view, however, Mexico will cut its interest payments by 1.7 billion dollars and effectively gain a reduction of 18 billion dollars, 7 billion being immediately available to acquire 30-year zero coupon U.S. bonds which are to be used as collateral for reduction of principal on the debt-see León García Solar, “A la mitad del foro,” *Excelsior*, January 14, 1990.

That the Brady Plan results can continue to be interpreted so differently north and south of the border has been its chief advantage since it was proposed in 1988. The United States can claim to have negotiated with toughness but compassion. Mexico can claim a favorable settlement that yields a windfall of funds that gives time to privatize industry and stabilize the economy.

Although images are being used to make both countries "winners," one reality is clear: Mexico has gained more time than money. Mexico will also have to renegotiate its debt sooner than it wants-unless oil prices and/or the Mexican economy make a dramatic rise. Other realities have yet to be determined.

.

In the meantime, "settlement" of the foreign debt has not led to the repatriation of Mexico's flight capital as hoped by the Mexican government. What must be noted is that there is always some 10 billion dollars moving into and out of Mexico depending upon momentary circumstances, but there is a "hardcore" pool of up to 80 billion dollars that has not returned to Mexico. High Mexican officials have told me that they fear that those funds will not return until the banks are deregulated. "How," they ask, "can Mexico modernize the economy without modernizing the banking system?" Needless to say, these officials are working from within the government to change the banking laws.

During 1990 the governing Partido Revolucionario Institucional (PRI) also faces the need to modernize the way in which it operates. The PRI is now attempting to end critisism that it is an "official party," with President Salinas stating that it must operate without government subsidies. Too, PRI President Luis Donaldo Colosio and PRI Secretary of Foreign Relations Romeo Flores Caballero argue that they have to establish policies manifestly different from those of the government, otherwise the party cannot develop credibility of independence. Meanwhile Colosio has attempted to shift the party's role from that of a presidential electoral machine active mainly at six-year intervals to take an active role in the country's day- to day life. (For example, in 1989 he intervened in the Cananea copper mine strike to mediate between the government, which wanted to privatize the mine, and the workers who feared loss of jobs-the compromise negotiated was to "sell" the mine to the workers.)

The PRI may well be advised to change its name, as it has done twice to reflect changes in its orientation and structure. In 1938 the Partido Nacional Revolucionario (PNR, organized around political strongmen) became the Partido de la Revolución Mexicana (PRM, organized on its present corporatist basis) and in 1946 became the PRI (which continued the corporate system but eliminated the military sector to rely only upon its labor, Peasant, and popular sectors). Clearly this corporatist system has become increasingly irrelevant especially because it has never given any weight to the capitalist sector that really counts. If Mexico's governing party insists on maintaining its "revolutionary" image, it should consider changing its name to, for example, Partido Moderno de la Revolución (PMR). The emphasis on "modern" would be appropriate because that is President Salinas' code word for ending the party's historic expansion of the state power at the expense of the private sector.

Salinas' massive sale or closure of non- strategic industry run by the state and his "overthrow" of the old corporatist order, which supported the expansion of costly and inefficient statist industry, could be recognized explicitly through creation of a modern party with a modern name. The new party would be based on the secret vote by geographical region. Salinas and Colosio have already moved to give territorial voting a footing in party affairs equal to or exceeding the voting power of the corporate sectors; therefore, the time has come to push ahead for explicit party reform under a new name. The Salinas change of Mexico's political economy is indeed far advanced and justifiably could be called "revolutionary" in the Mexican context. Too, secret and honest party primary elections would constitute a major revolutionary step for Mexico.

It is my view that as President Salinas explicitly privatizes the economy and implicitly disestablishes the corporatist system in Mexico, he is reestablishing the power of the presidency. The presidency had lost power because, in covering the deficits of parastate agencies from steel to airlines, the president saw all his discretionary funds diverted from projects he wanted. With the sale and or closing of hundreds of money-losing parastate agencies which spent their funds without any real oversight by the government, the Mexican presidency may regain the ability lost since 1982 to put money into socially relevant priorities.