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MEXICO: OUTLOOK FOR THE
LOPEZ PORTILLO ADMINISTRATION

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Summary

The outlook for the new Mexican Government is of special significance to the United States. A multitude of intertwined relationships--a mutual border, substantial bilateral trade, billions of dollars of US investment--join the two countries. As a result, the problems of one often have considerable impact on the other.

Jose Lopez Portillo, who took office as President of Mexico on December 1, faces a formidable array of problems at the opening of his six-year term. The short-term effects of some of the policies of his predecessor, Luis Echeverria, provide his most immediate tasks:

- to restore confidence in government;
- to stabilize an economy in psychological crisis since last fall's devaluations of the peso; and
- to effect some reconciliation between business and labor, landowners and landless peasants.

Mexico's new President will also have to deal with more deeply rooted problems:

- the high under- and unemployment rate;
- lagging industrial and agricultural productivity; and
- skyrocketing population growth.

Lopez Portillo brings a variety of experience and skills to the job. A former professor

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UNCLASSIFIED ii -

and Secretary of Finance, he is an intellectual, a pragmatic, and a skilled administrator whose personal style is to stress reason and compromise rather than rhetoric and ideology. He appears, in the first weeks of his administration, to have made a good beginning on the tasks before him. His inaugural address, stressing calm, confidence, and reconciliation, and his cabinet appointments, indicating responsible administration, have generally been well received. In addition, he has taken steps to garner support from the private sector and to avert armed conflict over land invasions.

Under Lopez Portillo's administration, Mexican-US relations should improve. He has stressed the need for a more cooperative relationship between the two countries and is hoping for special trade preferences for Mexican exports, increased investment, and more US tourism to bolster the Mexican economy. In return, the US may look for a more constructive approach to the problem of illegal Mexican immigration, continued cooperation on the joint narcotics control program, and a more moderate stance from Mexico on Third World issues.

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Mexican President Jose Lopez Portillo, who took office on December 1, faces a formidable array of pressing problems at the opening of his six-year term. How effectively he deals or comes to terms with them holds important implications for the US.

Mexico's significance for the US lies in the multitude of intertwined relationships that join the two countries: a mutual border, substantial bilateral trade, billions of dollars of US investment in Mexico, and a host of jointly undertaken projects ranging from the eradication of agricultural pests to narcotics control. Because of this inter-relationship, the domestic problems of one country often have considerable impact on the other--for example, Mexican unemployment becomes illegal immigration to the US; and US recessionary cycles depress Mexico's export and tourism industries, heightening its balance of payments deficit with the US.

Background

During the period from World War II to the early 1970's, Mexico's economic managers emphasized growth in industry and manufacturing, achieving an impressive, sustained GNP growth rate of more than 6 percent annually. However, as former President Echeverria found when he took office in 1970, the growth pattern had masked such basic national problems as an exploding population rate, burgeoning unemployment, neglected rural development, inequities of income distribution, and inadequate programs for the poorest sectors of Mexican society.

In an effort to build for the future, the Echeverria administration poured huge sums into ambitious long-term projects--dams, steel mills, increased petroleum exploration--and into social programs, including schools, roads, and hospitals. Hit hard by the "stagflation" that gripped the US in the mid-1970's, Mexico saw a sharp drop in tourism and export earnings and a steep rise in the cost of imports at the same time that government spending and borrowing were at an all-time high. By the spring of 1976, Mexico's foreign

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- 2 -

debt was estimated at some \$22 billion, pressures were building for the devaluation of the peso, and the private sector was becoming increasingly concerned by Echeverria's anti-business diatribes. Devaluation rumors, begun in April, became a self-fulfilling prophecy as capital flight snowballed, forcing Echeverria to take the necessary--but bitter--pill of allowing the devaluation of the peso on September 1.

In the wake of a second devaluation on October 26, rumors of an "imminent coup"--although unfounded--gained widespread credence, an indication of how badly public confidence was shaken. These rumors were exacerbated by Echeverria's sudden action in mid-November seizing some 250,000 acres of privately owned agricultural land for distribution to landless peasants. Additional land distributions on the eve of his departure from office raised the hopes of additional thousands of landless peasants and resulted in widespread land invasions in northern Mexico. As Echeverria relinquished the presidency, Mexico was in the grip of a psychological crisis.

Two Transitions

Echeverria's inheritance, on taking office from Diaz Ordaz, was a prospering economy but a middle class restive under the authoritarian one-party system, and a shockingly neglected segment of society--the rural and urban poor--which had not shared in the prosperity. Student violence was high, and pressures from the left threatened to force Echeverria to turn to increasing repression in order to govern. Considered at the beginning of his term to be another conservative president, little different from the lackluster Diaz Ordaz, Echeverria instituted a number of social programs and surprised observers by outflanking the left with rhetoric--a favorite move being to call demonstrating leftist students "fascists." Although private-sector profits certainly did not suffer under Echeverria (they were, in fact, at an all-time high), private-sector psychology eventually succumbed to the years of Echeverria's left-leaning verbal barrage, resulting in cutbacks in private investment and a torrent of capital flight.

On leaving office, Echeverria said that the accomplishments of his administration will be better understood in the future than they are today. He is probably right. Although his immediate legacy to Lopez Portillo appears to be a

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national economy in disarray and a badly divided society, these are short-term effects that Lopez Portillo--with skill and a little luck--can overcome in the first years of his term. In the long run, Echeverria's investments in infrastructure should provide a solid basis for further expansion of Mexico's fundamentally sound economy--particularly in petroleum and steel.

There is, however, another bequest from Echeverria that is likely to cause difficult medium-term problems for Lopez Portillo. By raising the expectations of the landless campesinos for more land and of labor for continuing wage increases, Echeverria encouraged demands that Lopez Portillo could fulfill only at the expense of agricultural productivity and higher industrial prices. However, higher productivity and greater production are major components of Lopez Portillo's economic stabilization program. Openly to deny these demands could require stern repressive measures; Lopez Portillo is more likely to follow the time-honored--and more prudent--course of watering down demands by persuading sector leaders of the need for restraint. The new President will find his ability to achieve compromise between conflicting interest groups put to the test from the very first days of his administration.

Lopez Portillo

Lopez Portillo, at 56, brings a variety of experience and skills to the presidency, which should stand him in good stead at this juncture in Mexico's political life. Trained as a lawyer, he taught history and political science for some 20 years at Mexico's National University and at the Polytechnic Institute. His public service career includes experience in the Secretariat of National Patrimony and in the Secretariat of the Presidency, and he has served as Director General of the Federal Electricity Commission and as Secretary of Finance. He is an intellectual and a pragmatist as well as a skilled administrator, willing to delegate authority and interested in streamlining the government structure. His style is to emphasize reason and compromise, rather than rhetoric or ideology, and he is inclined to take a realistic and moderate approach to problems.

Inaugural Speech

Lopez Portillo's inaugural speech appears to give a good picture of the man, his style, and his priorities.

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Statesmanlike--in parts, eloquent--it was clearly an all-out effort to restore the heavily eroded confidence in government. In it, he realistically acknowledged the many problems facing Mexico and frankly admitted that he needed time and the cooperation of all elements of society to deal with them. Emphasizing that the greatest danger to Mexico is fear, he asked for time, patience, faith, and goodwill to bind up the nation's wounds.

The address, largely devoted to economic policy, called for an austerity program and a national effort to increase production and promised to restructure taxes, cut government spending, reduce foreign borrowing, control imports, and attack the problem of inflation.

Lopez Portillo did not outline specific programs, but spoke at length on the economic policies that his government would pursue:

- Exchange rate. No fixed exchange rate was announced, and no promise was made to establish one in the future. The President, however, spent an appreciable amount of time explaining to the public the real meaning of devaluation and indicated that he would introduce measures designed to discourage capital flight.
- Balance of payments. The size of Mexico's huge foreign debt was not mentioned, but the President promised that foreign borrowing by the public sector will be limited to that required for capital goods; attention will be given to increasing labor-intensive exports; and, for the private sector, moves will be made to substitute tariff protection for import quotas.
- Investment policy. The government will seek to focus domestic and foreign investment primarily on agriculture and livestock, energy, petrochemicals, mining, steel, capital goods, transportation, and basic consumer goods.
- Tax policy. The President called for the adjustment of tax rates for inflation and the reinstatement of progressive taxation of incomes. To encourage reinvestment, higher tax rates will be applied to companies' distributed profits.
- Wages and prices. Stressing the need to avoid further deterioration of income distribution, the President

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proposed to tie salaries to an improved cost-of-living index and to make strong efforts to control inflation.

--Natural resources. Mexico must make rational but intensive use of its natural resources. Citing fossil fuels as an example, Lopez Portillo warned against past errors of senseless waste and pressed for improved use of such non-renewable energy sources as oil, gas, and coal, until techniques in atomic, solar, and geothermal energy are developed.

--Agriculture. Mexico will emphasize the need to become self-sufficient in food production, and a program will be set up for technical research in tropical agricultural areas. Lopez Portillo did not, however, spell out his policy on agrarian reform.

--Industrial development. Special emphasis will be placed on stimulating the agricultural, mining, and steel industries, with support for small- and medium-sized operations. A special ministry will be set up to coordinate industrial sector affairs.

Foreign policy was dealt with only briefly. The President stressed the continuity of Mexico's traditional foreign policy, based on the principles of sovereignty, independence, and international solidarity. He pledged support for the Charter of Economic Rights and Duties of States (CERDS) and reiterated Mexico's determination to continue to press for the peaceful resolution of conflicts and the prohibition of weapons that threaten humanity's existence.

Finally, Lopez Portillo proposed three new laws related to reform of government administration which indicate his concern for streamlining government structure in order to increase its efficiency and responsiveness:

- an administration law to reorganize and regroup the cabinet ministries, possibly creating a few "super" ministries;
- a public debt law that would give the Mexican Congress better control over executive branch expenditures; and
- a government expenditure law that would place a single ministry, similar to the US Office of Management and Budget, in charge of the budget and government spending.

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- 6 -

The Cabinet

Lopez Portillo's selections for cabinet and other high government positions are generally of high quality and have been favorably received by political groups of the center and the right. Breaking with the Echeverria administration, Lopez Portillo has demonstrated his independence by surrounding himself with close associates and has retained only two of Echeverria's former cabinet officers--both of whom received posts of lesser importance. While many other Echeverria appointments have been kept on in second- and third-level positions, Lopez Portillo has made it clear that he intends to be his own man--another reassuring sign to the private sector.

Among his major cabinet appointments are:

- Secretary of Government, Jesus Reyes Heroles;
- Secretary of the Presidency, Carlos Tello Macias;
- Secretary of Finance, Julio Rodolfo Moctezuma Cid; and
- Secretary of Foreign Relations, Santiago Roel Garcia.

These men are close to Lopez Portillo, have broad previous experience in government, and generally have established good records in administration, planning, and finance.

The relative importance and responsibilities of some of the other cabinet positions remain unclear, pending the passage of Lopez Portillo's bill to reorganize the government. In his proposal, already before Congress, the President seeks to streamline the unwieldy Mexican bureaucracy in order to reduce waste and duplication and to improve its usefulness as an instrument of planning. His program calls for:

- a merger of the Secretariats of Agriculture and Hydraulic Resources to maximize agricultural and forestry production;
- a combined Secretariat of Patrimony and Industrial Development, noting that energy resources are the key to Mexico's development and that only by their sound and expeditious exploitation can basic industries flourish;

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- a new Secretariat of Commerce to coordinate production and distribution, to promote the competitiveness of Mexican exports, and to manage import control policy;
- a new Secretariat of Human Settlements and Public Works to unite government programs related to housing, population, and urban welfare;
- a new Secretariat of Programming and Budget to combine the planning and budget activities now scattered among three Secretariats; and
- the creation of a Secretariat of Fishing to encourage exploitation and consumption of fisheries resources.

Prospects

Many of the problems facing Lopez Portillo are the enormous and intractable issues that faced his predecessor--skyrocketing population growth, a staggering unemployment rate, and an ever-widening gap between rich and poor. Before he can begin to wrestle with these, however, Lopez Portillo must first deal with more immediate problems left him by Echeverria: restoration of confidence in government, stabilization of the economy, improvement of balance of payments, and reconciliation or compromise between such conflicting interests groups as business and labor, peasants and land-owners. On some of these he has made a good beginning:

- --his inaugural address, stressing calm, reconciliation, and confidence, was well received by the public;
- his cabinet appointments, indicating responsible administration, buoyed the mood of the private sector;
- the armed confrontations over land invasion appear to have been diverted into legal channels, at least for the present; and
- his private talks with businessmen have garnered support for his first investment and development programs.

His next immediate challenge came from labor's threat to demand huge wage increases on January 1, which, if granted, could have seriously jeopardized economic stabilization measures. However, a compromise was achieved, with increases of 9 and 10 percent authorized. In his choice of

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the highly capable and efficient Pedro Ojeda Paullada, former Attorney General, for the post of Secretary of Labor, Lopez Portillo seems to have indicated his concern that the labor sector may present his administration with some of its most difficult problems. Ojeda's effectiveness is increased by the addition to his team of Alejandro Gertz, formerly his executive officer in the Attorney General's office.

If private-sector confidence can be restored, reversing capital flight and encouraging savings and investment, Lopez Portillo will likely turn to the two major items stressed in his campaign:

- stimulating agricultural production to make Mexico self-sufficient in food, create jobs in labor-intensive agriculture, and provide farm products for export; and
- increasing development of Mexico's energy resources, particularly petroleum and natural gas, to fuel an expanding economy and provide needed foreign earnings.

The problems facing the Lopez Portillo government are formidable, and the most deep-rooted cannot be solved within the term of one administration. However, Mexico's basically sound economy and wealth of natural resources should, with careful nurturing and a favorable international economic climate, provide the growth necessary to keep those problems within manageable limits.

Implications for Mexican-US Relations

Mexican-US relations, in the main friendly and cooperative for three decades, suffered during the term of President Echeverria. His verbal blasts at the US, economic imperialism, and allusions to "dark interests" promoting Mexico's "economic destabilization" took a heavy toll of US goodwill, as did his unprecedented (for Mexico) activism in international forums and his ardent espousal of Third World causes.

Lopez Portillo is well aware that these actions have hurt Mexico in tangible ways, including a drop in US tourism and reduced US investment. He has repeatedly stressed his desire for a friendlier, more cooperative relationship with the US and indicated that his choice of Ambassador to the US would be one of his most important appointments. He has chosen Hugo Margain, a former Finance Minister, who served

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as Ambassador to the US from 1965 to 1970 and, most recently, as Ambassador to Great Britain, where he is said to have forged strong economic links for Mexico among British financial circles. Margain has long been a champion of Mexico's efforts to assert greater political and economic independence from the US. He nevertheless favors a close working relationship between the two countries on matters of mutual concern. This, coupled with his strong economic and financial background, points toward the course that Lopez Portillo will pursue with the US, emphasizing:

- friendship and cooperation, but not at the cost of compromising Mexico's independent posture;
- increased US investment in Mexico, but channeled into areas serving Mexican development goals; and
- US trade preferences to allow Mexico to boost its manufactured and agricultural exports to the US.

Lopez Portillo understands the constraints placed on these measures by the US political process. He hopes, nevertheless, that the US will show its support by early action on such matters as an increase to \$200 in US customs exemption to encourage more US tourism to Mexico and legislation to grant Mexico a higher US legal immigration quota.

In three areas of major interest to the US--narcotics, illegal migration, and petroleum--the prospects are mixed. Lopez Portillo has pledged his all-out support in continuing Mexico's efforts in the joint narcotics control program, with emphasis on poppy eradication. In the last year, this program has seen some success in reducing the supply of Mexican heroin available in the US. However, corruption among some Mexican officials is a problem, and although Lopez Portillo has promised to wage war against this, he is likely to find it a well-nigh impossible task. Nevertheless, to the extent that Mexico continues its commitment to the narcotics control program and that official corruption can be contained or limited, some continued diminution of the quantity of "Mexican brown" reaching the US can be expected. As long as the demand for narcotics in the US continues, however, Mexico will remain a prime transit point for drugs from other areas destined for the US.

Illegal migration, with deep roots in Mexico's most intransigent problems--population growth, unemployment,

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rural and urban poverty--seems unlikely to abate. Lopez Portillo hopes to combat the labor outflow by creating more jobs in industry and agriculture and is looking to greater US involvement to help create those jobs. Higher employment and lower birth rates, however, are long-term approaches. In the meantime, illegal migration to the US will continue, building pressures within the US for tighter border control and more deportations and building reactions in Mexico to violations of the migrants' human rights. To the extent that such measures--if they are taken--prove successful in shutting off the US safety valve, the Mexican Government will face increasing social unrest at home.

A wide range of proposals concerning "undocumented aliens" is being discussed at various levels in the Mexican Government:

- resurrection of the "bracero program" for temporary Mexican labor;
- the formation of a joint US-Mexican commission to study the problem and make recommendations to both governments; and
- the creation of special industries in rural areas of high emigration which would receive special support from the US Government for their exported products.

Given the complexities of the issue, the lack of a broad base of factual data on illegal immigration, and Lopez Portillo's pragmatic orientation, it seems likely that Mexico may propose a joint study as an initial step.

Mexico's oil reserves are presently estimated at some 20-40 billion barrels, and exploration by Pemex, the Mexican Government-owned petroleum company, continues to locate promising areas for future drilling. Further testing may reveal that Mexico's reserves range close to the 60-billion-barrel mark--about the extent of Kuwait's. With the increased investment in exploration, drilling, and production capacity of recent years, Mexico has once again become self-sufficient in oil and, in 1976, began exporting crude oil, reaching a year-end rate of some 100,000 barrels a day. Given a major production effort, it is estimated that Mexico's exports could reach 300,000 b/d in 1977 and 850,000 b/d in 1979.

Lopez Portillo has called for increased--but rational--exploitation of Mexico's energy resources. He has named as

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Director General of Pemex, Jorge Diaz Serrano, a long-time friend and a former private contractor to Pemex for oil exploration. Diaz is said to be highly knowledgeable on both the technical and financial aspects of petroleum production and to be favorably disposed toward Mexican private business and US oil companies.

Although pressures exist for a conservationist approach, and some quarters favor exporting only refined petroleum products, Mexico's current foreign indebtedness would appear to dictate that--at least over the next decade--every effort be made to lift and export crude oil as rapidly as possible. This rapid production would allow Mexico to reduce its debt and provide capital for expansion of other aspects of its economy. To make the concerted development effort, Pemex would require additional equipment and technical assistance, especially for offshore drilling--a situation that could provide opportunities for US petroleum-related industries. Mexico's nationalistic sensitivities, however, would require the utmost delicacy in handling any foreign connections in the development of its petroleum industry.

Beyond the term of Lopez Portillo, it seems likely that Mexico, once its debt problems become more tractable, would revert to a more conservationist approach to its petroleum resources:

-there is a built-in reluctance to allow any one factor to dominate the economy;

--too-rapid development and production would result in waste of associated natural gas and limit the long-term productivity of the fields.

In the international arena, the US can expect a more moderate stance from Mexico and, perhaps, an atmosphere of better understanding in working out compromises on such issues as Law of the Sea, disarmament, and Third World demands for a New International Economic Order. Lopez Portillo has felt that his predecessor's frenetic involvement in every Third World cause has proved of no benefit to Mexico and, in fact, has occasionally involved the country to its detriment in quarrels not its own. Moreover, Mexico's large foreign debt and its need for continued inflows of private and official investment tend to dictate moderate courses of foreign policy aimed at retaining US and other international confidence in the country's management. Under Lopez Portillo,

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- 12 -

Mexico can be expected to focus its energies on the multi-lateral issues that directly involve its own interests.

On balance, then, while the US can expect a friendlier tone and greater cooperation in working with the Lopez Portillo government on matters of mutual concern, it must also expect hard bargaining and must attempt to forge compromises over the thorny issues on which Mexico's interests diverge from those of the US.

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42