ECONOMY

1980s eco crisis
stagnation
triple digit inflation
real wages down

End of IS model
began 1940s - protectionism & promotion of infant inds.

TRADE

U.S. no. 1 trade partner for Mex - 60-80% of Mex trade is with U.S.
Mex no. 3-4 trade partner for U.S. - much smaller % of U.S. trade is with Mex
Asymmetry or dependency?
Mex needs the U.S., much more than U.S. needs Mex
Intl division of labor - Mex role as Xer of prim products (oil, cotton, coffee) and Mer of manu. goods.
Historically a trade deficit for Mex (at least until 1982 when plumeting Ms produced trade surplus)
Exceptions - post 82 trade surplus as Mex Ms ↓ due to eco crisis. Post 86 rise in manu. Xs as policies shifted
Historic positives in "trade" for Mex have been tourism and maquiladoras. Guesstimate of net b of p contributions of each to Mex are $1 bn per year.

Maquiladoras ("in-bond" or "twin" plants) are the hundreds of border inds. in Mexico (subsidiaries of the U.S. MNCs typically). Mex waives import duties and f.i. restrictions and U.S. waives tariffs on all but the value added in Mex. They will M into Mexico (typically from a plant on U.S. side of border) duty-free components, assemble these components in Mex, & X them back to the U.S. - paying a tariff only on the value added in Mex.

<u>Mex Protectionism</u>, 1940s-80s. In 1979 or so JLP began trade liberalization of replacing M licenses (quotas, etc.) with tariffs & gradually reducing tariffs. But the liberalization process was not a steady one, until probably 1986.

GATT decision - JLP made much of deciding not to enter in March 1980, but DLM did enter in 1986. GATT was an impt symbol of liberalization.

U.S. Trade Policies

GSP enacted 1976 - ~~enempls~~ exempts designated products from certain LDCs from U.S. M duties (up to certain levels). Mexico Xs some $ ½ to 1 bn of goods to U.S. under GSP. But over 50 products have been "graduated" or "excluded" because, as the U.S. has argued, the need objectives are not satisfied (the product does not need the preferences to be able to compete). Mex beer was an ex that had tremendous pol. repercussions in Mexico.

Countervailing duties

When U.S. producers can show that a foreign product has a competitive advantage due to subsidies in the exporting country, countervailing duties can be applied. For Mex (as not being a GATT member) proof of injury or damage to the U.S. producer was not a criteria. This made it much easier to enact CVDs.

Anti-dumping restrictions

Ms can be restricted if it is shown that the Xing ctry is "dumping" (selling at lower than domestic prices) their product in intl markets. 1978 "tomato war." Florida growers filed suit against Mex for dumping tomatoes. U.S. eventually found no evidence of dumping.

Health and sanitation restrictions

Esp. applied against Mex meat, fruit, & vegetable Xs to U.S. Ex: prohibit Mex cabbage treated with DDT which is illegal in U.S.

Agreements

1985 "Understanding" - Mex promised to phase out X subsidies and U.S. agreed to apply the injury test provision to CVD considerations

1986 "Framework" for bilateral trade negotiations and dispute settlement

1986 Mex enters GATT

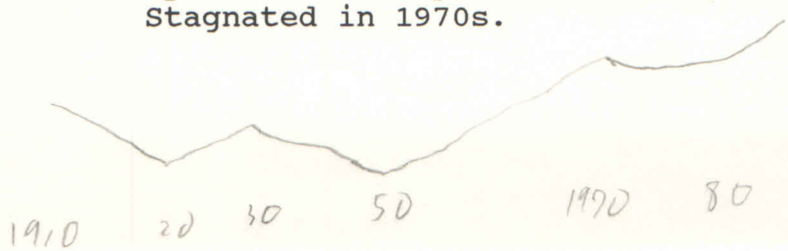
INVESTMENT

Mex policies toward f.i.

Carranza threatened to nullify all for. contracts
Article 27 of 1917 Const - sub-soil rts, expropriation
1923 Bucareli Pact - recognized rts of for. owners who had acquired their petro interests before 1917
But Calles modified this with
1925 Petro law recognizing existing petro rts for only 50 years
1937 natl of RRs
1938 natl of oil cos.
1938 Law of Elec. Inds limited existing concessions to 50 yrs & no new concessions
1939 Communications Law reserved communications facilities to Mex. cos.
1940-42 - claims of U.S. oil cos. settled
1946 " " Brit. " " "
1941 Mexican-American General Agreement settled claims of expropriated U.S. landowners
1944 Emergency Decree requiring permission of Ministry of For. Relations for f.i - required majority Mex. invest. (Mexicanization) in certain enterprises
1958-62 Mexicanization significantly strengthened - extended to phone co., primary petro chems, raw materials
1970 Mexicanization decree (López Mateos) extended to steel, cement, etc.
1973 Law to Promote Mex. Invest. & Regulate F.I. - made Mexicanization the general rule in all enterprises, though allowed discretion on a case-by-case basis.
1973 Law on Transfer of Technology - registration & review of all new contracts, etc.
1976 Law on Patents and Trademarks - mandated Mex. trademarks - novel idea & difficult to enforce.
L.P. more flexible to f.i. - more willing to interpret legislation more loosely. Even 1982 bank natl did not affect Citibank, only for. bank in Mex.

Trends in U.S. f.i. in Mex

In 1920 was ⅓ of level in 1910
Slight increase 1920-30
Decreased over 50% in 1930s & early 40s
Began steady increase in 1950
By 1970 was triple the level (in real terms) of 1950.
Stagnated in 1970s.



Characteristics of f.i.

Entry thru denationalization (acquiring existing Mex-owned firms)
Concentrated in largest firms & key sectors & oligopolistic sectors
Represents only some 10% of total investment, but over ⅓ of ind. production & ½ of ownership in largest 300 ind. firms

Recent policies (DLM)

Privitization of many state-owned cos. (air lines, phone, copper, etc.)
Very open to new f.i.

Policy Issue
Move to change in law as opposed to bureaucratic discretion in openness to f.i.

DEBT

1982 - debt crisis hits - last yr. of JLP
by Aug. Mex had exhausted its reserves & had to negotiate a 4 pt "bailout" plan & on Aug. 23 postponement of debt payments for 30 days
(1) $1 bn loan from U.S. applied to future petro sales to U.S. Strategic Reserve
(2) $1.7 bn credits from intl central banks
(3) $1 bn credits from U.S. for grain
(4) future $4 bn loan from IMF
other impt policies of 1982 were Feb. devaluation,
Sept. exchng controls & bank natl.

Levels.
increased from $77 bn in 1981 to $108 bn in 1987
from 31% of GDP in 81 to 76% of GDP in 87
Has averaged about ⅓ of all export earnings

	total debt 89	interest due 89	net trade earnings 89
1989 Bra	$120 bn	$12 bn	$19 bn
Mex	$108 bn	$11 bn	$3 bn

Causes: creditors & debtors overoptimism; debtors policies: deficits, inflation, devaluations; intl interest rates
1985 Baker Plan - new financing from priv. banks & World Bank in return for concessions (in eco policy)
1989 Brady Plan - debt relief
Overall strategies/approaches

Renegotiate/New money/concession   Debt relief (capacity to pay?)
Debt moratorium

Debt relief-typical options

1 Debt-equity swaps - bank trades its loan (at market value) for local currency that it has to invest in local eco.

2 Debt-debt swap - bank trades its loan for bonds issued by debtor nation - either at market value or at full value but with lower interest rate.

3 Cash buyback - debtor country buys its loans back from bank at market value - money can come from export earnings, tourism, or loans/grants from intl bodies.

July 1989. Mex works out agreement in principle with banks holding $48 bn of med & long-term debt - 3 options
(1) 35% discount - convert loans to bonds with a principal value equal to 65% of original loan but with market level

interest rates

(2) Interest rate reduction - convert loans to bonds with a fixed interest of 6.25%

(3) New money - loan new money equal to 25% of their present loans.

% of 450 commercial banks debt to choose which option

	estimated in July	actual by March
(1)	20%	40%
(2)	60%	50%
(3)	20%	10%

If debt renegotiated was $48 bn

(1) $19.2 bn reduced to $12.5 bn, at interest rate 13/16% pts. above LIBOR, debt reduction of $6.7

(2) $24 bn at interest rate of 6.25%

(3) $4.8 bn lent another $1.2 bn

Changes in Total Debt

(1)	$-6.7 bn
(2)	0
(3)	+$1.2 bn
	-$5.5 bn

$48 bn became $42.5 bn

Total debt reduction of ≅ 12%

Changes in interest payments

		before	after	diff
(1)	Labor ≅ 8 13/16 + 13/16 = 9.625			
	19.2 bn at 9.625 = $1.85 bn 12.5 bn at 9.625 = $1.2 bn	1.85	1.2	-0.65
(2)	24 bn at 9.625 = $2.31 bn 24 bn at 6.25 = 1.5 bn	2.31	1.5	-0.81
(3)	4.8 bn at 9.625 = 0.46 bn 6.0 bn at 9.625 = 0.58 bn but $1.2 bn in new money	0.46	0.58	+0.12
		4.62	3.28	-1.34

Total interest payment reduction of ≅ 30%