

### Food Shortages

The combined effect of the drought and underproduction of several crops has led to severe food shortages in many of Colombia's cities. The shortages have been artificially aggravated by market manipulations, transportation foul-ups, provoked strikes within the distributive and commercial sectors, and large-scale hoarding. This has fostered widespread desperation on the part of a population which is already suffering a marked deterioration in its living standards. That desperation, exacerbated by a flurry of articles in the national press warning of worse crises to come, has been manipulated by the government for the purpose of imposing a hyperinflationary spiral of price increases intended to gouge working class incomes.

The most blatant example of this strategy was demonstrated last month when the country's notorious shortage

of sugar, allegedly due to underproduction, was solved with the stroke of a pen. An agreement between the sugar producers and the government to raise the price of sugar some 70 percent — half-way between the officially-established price and the black market price — was given front-page coverage in all the national press under the headline "Sugar Shortage Ended!" A renewed flow of sugar into urban and rural marketplaces was immediately guaranteed by the government. Within the week, the same "solution" was being mooted within official circles for meat, salt...etc. In Colombia, releasing price controls is defended as guaranteeing normal commodity supplies. In Argentina, where this same policy has been pursued by the military dictatorship since it came to power one year ago, economists have described the measures as "officializing the black market."

## Investment Crisis In Mexican Industry

### MEXICO

For the first time in almost 25 years, the growth of the Mexican economy in 1976 failed to match population increase. Accustomed to annual growth rates of 6 percent or higher, the country was stunned when the Banco de Mexico announced last month that Gross Domestic Product grew only 2 percent last year, well below the population increase of 3.5 percent. Further, the figure of 2 percent reflected a few sectors of extraordinary growth such as oil and refining (9.0 percent) and electrical energy (8.2 percent); consumption goods production increased only 1.5 percent, and investment goods declined 5.0 percent.

These dismal figures were the product of a first half which showed growth on the order of 5 percent combined with a second half in which overall industrial production declined in absolute volume (Table 1). The \$4 billion taken out of the country by right-wing businessmen as an economic warfare measure against then-president Luis Echeverría and the 40 percent devaluation of the Mexican peso announced August 31 contributed greatly to this downturn.

But longer-term factors were equally important. Private-sector investments stagnated from at least 1973 on, after historically providing a critical component of economic growth. The state tried to compensate for this by vastly increasing its investments, but this was not sufficient to prevent declining rates of overall industrial growth during the latter portion of Echeverría's six-year term. During these same years, a rising percentage of total financial inputs were absorbed by debt service, reducing the financing available for productive investment. Rising inflation has been one important consequence.

There are two irreconcilable strategies now in circulation of how to deal with the crisis in the Mexican economy. One, that of the New York banks, the International

Monetary Fund (IMF), and newspapers like the *New York Times*, urges maximum exploitation of Mexico's newly announced oil reserves to pay the foreign debt while essentially ignoring the rest of the economy. The IMF signed a letter of intent with Mexico at the beginning of 1977 which focused on slowing growth and expenditures in order to maintain balance of payments stability. Leonard Silk, the *New York Times'* international financial analyst, reported March 24 that "... the job of stopping inflation might mean no growth or negative growth for Mexico for a few years..." The March 9 *Business Latin America*, newsletter of the consulting firm Business International, wrote hopefully that "If pol-

Table 1—Volume of Industrial Production  
(% VARIATION OVER SEMESTER PREVIOUS LEVELS)

	%CHANGE 1976/1975	% CHANGE	% CHANGE
		1ST HALF 1976 OVER 1ST HALF 1975	2ND HALF 1976 (E) OVER 2ND HALF 1975
MANUFACTURING	1.9	4.3	-0.4
OIL AND DERIVATIVES	9.0	13.3	5.1
PETROCHEMICAL	3.5	13.1	-4.7
MINING	3.5	0.5	5.5
ELECTRICAL ENERGY	8.2	9.5	6.9
CONSTRUCTION	0.0	4.1	-3.9
GENERAL	2.3	4.7	-0.2

(E) ESTIMATES BASED ON JULY-NOVEMBER PERIOD

SOURCE: BANCO DE MEXICO

icies slide back toward austerity in time, a difficult but therapeutic slowdown would mean a real decline in GDP, the price of stability down the road.”

The second strategy, that of Echeverría's political sympathizers, a substantial faction in the current government of José López Portillo, and of some private business groups, is to use oil and its revenues to acquire technology and other capital imports to turn around the present collapse and launch a new period of substantial growth. Carlos Tello Macias, Minister of Planning and Programming, spoke for this faction when he told bankers in March that “stagnation is not an option for the economy.” The daily *El Sol* expressed clearly in mid-March that Mexico's oil must be used to acquire “the influx of industrial products and technological resources indispensable for the development of our industrial plant and agriculture.”

#### Downturn In Investments

During the Echeverría years, the state shouldered a steadily increasing portion of investment. In his sixth State of the Union address Sept. 1, 1976, Echeverría declared that public investment in constant prices increased at 16 percent per annum during his term, private investment only 4 percent. The extraordinary strength of government investment sufficiently overcame the poor private performance to increase total investment as a percentage of GDP from 21 percent to 24 percent.

The Center for Economic Studies of the Private Sector (CEESP), using Banco de Mexico statistics for “investment in physical capital” (machinery, equipment, tools, buildings and other installations including residential construction), computes private-sector investments as increasing at only 1.3 percent yearly from 1971-1975, against 1961-1970 rates of 12.1 percent. Public rates increased during the Echeverría period to 13.8 percent per annum versus 11.3 percent during the preceding decade.

The result is that in 1976, public investment equalled (or in some estimates, surpassed) total private investment for the first time. Centerpieces of the government investment strategy included infrastructural industries such as oil (\$4.66 billion invested)\*, electricity (\$26 billion), and steel (\$3.6 billion, almost entirely public-sector).

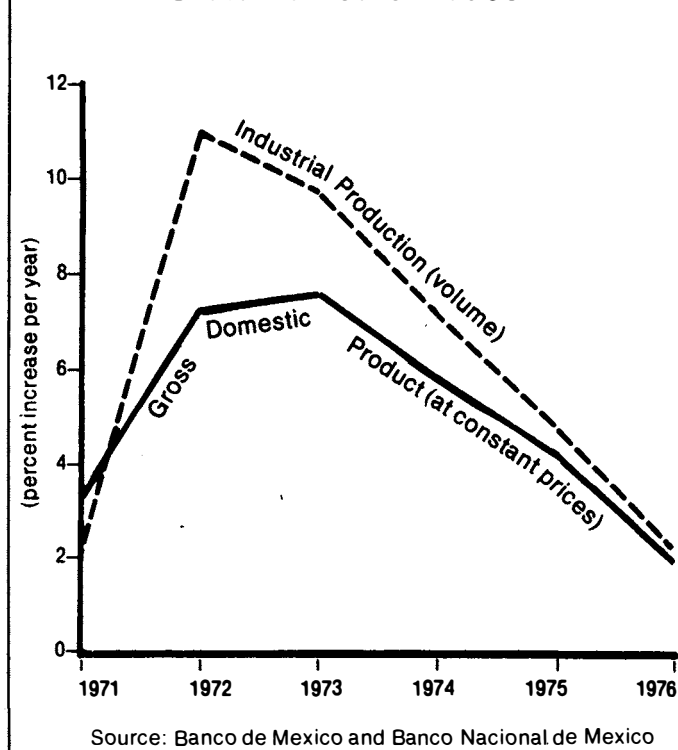
But the public-sector growth effected by Echeverría was not sufficient to compensate for the private sector's inaction. The 1960s average of 9.7 percent yearly increase in investment in physical capital fell to 6.3 percent in the 1970s. By 1976, the rate of growth of this key indicator was negative in real terms.

The effects of this secular downturn in investment have been felt in both industrial production and real GDP (Graph 1). It is important to note that industrial growth has led overall GDP growth until now when it threatens to dip below it. The picture is grimmer with a look at the Banco de Mexico's “investment goods” category: a 5 percent decline in 1976, after 20 percent growth in 1974, and 7.6 percent in 1975. Tractors and agro-machinery, electrical equipment, office machines, and passenger busses registered the largest declines.

So far, four months into IMF oversight for the Mexican economy, the investment picture continues to worsen.

\* All figures are expressed in U.S. dollar equivalents using exchange rate of Mex \$12.5 equals US \$1.0 for pre-September 1976 figures, and Mex \$20.0 equals US \$1.0 for later figures.

Graph 1  
Industrial Production And  
Gross Domestic Product



\*\*\* The second stage of the giant Lazaro Cardenas-Las Truchas steel mill on the Michoacan coast has been deferred because investment needs conflict with a \$3 billion national ceiling on increase in foreign debt imposed by the IMF for this year.

\*\*\* The enormous 2.4 million KW Chicoasen hydroelectric project on the Grijalva River in Chiapas and the 1.3 million KW nuclear facility under construction at Laguna Verde, Veracruz are both far behind schedule, and Federal Electricity Commission (CFE) efforts to get them moving again are facing severe budget constraints.

\*\*\* The Fundidora Monterrey steel plant, the nation's third largest, has successfully restructured and rolled over its debt obligations with U.S. banks on the proviso that it *abandon* plans to invest in a stainless steel plant — Mexico's first.

As these longer-term projects run into trouble, near-term production is equally jeopardized by cut-backs in imports. The 1976 trade figures (Table 2) show that imports in primary materials needed for domestic industry have fallen sharply and imports of capital goods, stagnant in current prices, have declined in real terms. At the same time manufacturing exports are giving place to agro and raw material exports. John Elek, head of Citibank's operations in Mexico, captured the essence of this regression to a pre-industrial economy when he commented recently, “How fortunate that the Virgin of Guadalupe gave Mexico coffee and oil.”

#### State Sector Versus Private

The commonplace argument that the private sector can only take a larger role in investments if the state sec-

**Table 2**  
**Export and Import Levels by Sector**

(MILLIONS OF CURRENT US \$)

	1974	1975	1976
<b>EXPORTS</b>			
AGRICULTURE AND FORESTRY(1)	581(154)	596(184)	909(343)
CATTLE, HONEY AND FISHING	222	176	257
EXTRACTIVE INDUSTRIES(2)	465(123)	737(460)	835(557)
SUB-TOTAL(3)	1,268(277)	1,509(644)	1,801(900)
PROCESSING INDUSTRIES	1,434	1,202	1,192
UNCLASSIFIED	148	148	105
TOTAL(4)	2,850	2,859	3,298
<b>IMPORTS</b>			
CONSUMER GOODS(5)	676	600	311
PRODUCTION GOODS			
RAW MATERIALS	3,007	2,903	2,706
INVESTMENT GOODS	1,726	2,391	2,510
UNCLASSIFIED	647	686	503
TOTAL(4)	6,057	6,580	6,030

(1) COFFEE EARNINGS IN PARENTHESES

(2) OIL EARNINGS IN PARENTHESES

(3) COFFEE AND OIL SUBTOTAL IN PARENTHESES

(4) TOTALS DO NOT NECESSARILY MATCH COLUMNS DUE TO ROUNDING OFF

(5) INCLUDES APPROXIMATELY 50% FOOD IMPORTS

SOURCE: BANCO DE MEXICO

tor is cut back is at best misdirected. More often than not, this argument has been floated as a thin rationale for a policy of deindustrialization according to IMF specifications. The fact is that during the Echeverria years, the state sector did invest, shouldering a large share of the capital formation responsibilities *by default* of the private sector. There is no reason why the private sector should not share this commitment as well, since there are more than enough investment opportunities to go around. Cutbacks in the state sector will simply result in declines in basic investments disastrous for the economy and business climate as a whole.

A quick look at the composition of the state sector clarifies the issue. As of August 1976, a total of 795 public-sector enterprises broke down as follows; 126 decentralized organizations, 403 with majority state participation, 96 non-credit granting trusts, 55 companies with minority state participation, and 115 credit-granting trusts. All told, these enterprises contributed 11.2 percent of GDP.

Most of these are small operations of significance to very localized aspects of the economy. The heart of the sector is the 26 enterprises included in the federal budget. Their expenditures represent an estimated 90 percent of the total of state enterprises. Within this group (Table 3) a handful — PEMEX, the state oil company,

**Table 3**  
**Spending of State Enterprises Included in National Budget**

(IN MILLIONS OF CURRENT PESOS)

ENTERPRISE	1975	1976(e)	1977(b)
Petroleos Mexicanos	54 268	73 494	96 362
Comisión Federal de Electricidad	29 928	36 792	45 915
Compañía de Luz y Fuerza del Centro	9 765	7 412	10 813
Ferrocarriles Nacionales de México(f)	12 737	19 529	15 145
Caminos y Puentes Federales de Ingresos y Servicios Conexos	1 243	1 479	2 123
Aeropuertos y Servicios Auxiliares	897	878	1 309
Aeronaves de México	2 874	3 811	4 717
Compañía Nacional de Subsistencias Populares	18 761	24 825	25 267
Instituto Mexicano del Café	2 837	6 016	8 045
Productos Forestales Mexicanos	54	196	113
Forestal Vicente Guerrero	108	364	153
Guanos y Fertilizantes de México	6 994	10 422	17 207
Productos Pesqueros Mexicanos	5 200	5 586	10 541
Instituto Nacional para el Desarrollo de la Comunidad Rural y de la Vivienda Popular	172	464	59
Instituto Mexicano del Seguro Social	25 064	35 613	42 602
Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado	10 858	19 311	16 924
Lotería Nacional para la Asistencia Pública	5 319	6 243	7 672
Instituto Mexicano de Comercio Exterior	483	492	579
Diesel Nacional	5 584	8 284	12 253
Siderurgica Nacional	607	1 147	1 889
Constructora Nacional de Carros de Ferrocarril	2 408	2 384	2 809
Siderurgica Lázaro Cárdenas-"Las Truchas"	4 073	6 277	5 123
<i>Total</i>	<i>200 234</i>	<i>271 019</i>	<i>327 620</i>

(e) estimated

Source: Comercio Exterior

(b) budgetted

(f) Includes 4 subsidiary lines joined with the National Railways 2-77

CFE, the state electricity company, National Railways, Fertilizers, and the two top social security institutes — account for just under 75 percent of the total 327 billion pesos budgeted in 1977. In terms of infrastructural investment, oil, steel, fertilizer, electricity, and sugar sectors of the state sector represented 95 percent of total state-sector investment of \$4 billion in the year ending August 1976.

Of remaining major state-sector enterprises, several are designed as subsidies for popular consumption. The most notable of these is the food subsidy and distribution network run by CONASUPO.

Despite some private-sector efforts to distort the record, the government of Echeverria was anxious to offer lucrative concessions to private-sector participation in areas of government investment priority. This is in fact part of the solution to the current economic crisis and eliminating inflation. The private sector domestically and multinational corporations internationally can take a larger role in investments through expanded joint ventures between government and private capital. A promising variant on such projects is being developed in certain Comecon countries, where multinationals contract and sub-contract the complete installation of certain plant and equipment, and the

national government "buys the investment back" with the profits of operation of direct exchange of production over an agreed-upon time period — ten years or so.

Areas of special investment opportunities include irrigation projects generally and the Motz desalination process in particular to meet Mexico's urgent water needs; and in reconversion of Mexico's steel production to the Jordan process.

#### Investment Outlook By Sector

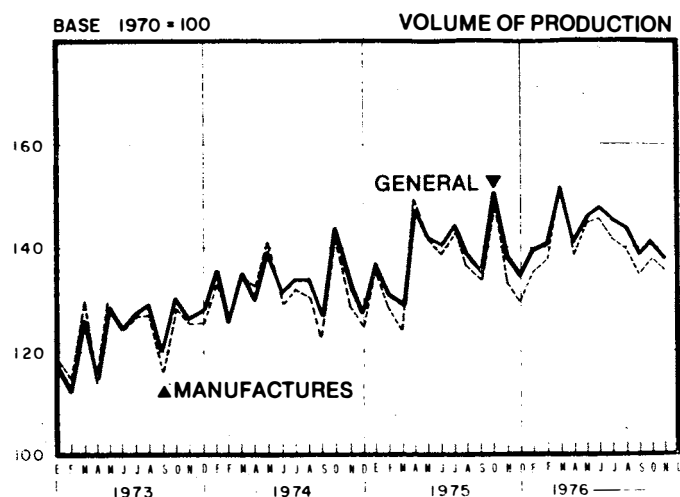
##### Capital Goods:

This sector is crucial for overall development of the economy, and one where Mexico's own productive apparatus is most deficient. It continues to enjoy top priority in government planning, as reiterated most recently by Lopez Portillo in an April interview with the Spanish magazine *El Pais*.

The Mexican capital goods industry between 1970 and 1974 increased at a rate of 10 percent per annum, but gained only slightly in terms of percentage of total industrial production — 4.3 percent to 4.9 percent. In 1976 the value of capital goods climbed toward \$1.6 billion, 40 percent of a total \$4 billion market otherwise satisfied through imports, but its percentage of industrial production remained constant. For contrast, it should be noted that the capital goods sector in Brazil accounts for over 7 percent of industrial production, and in advanced sector countries customarily for more than 20 percent.

This relative stunting of Mexico's capital goods industry is a product of: 1) emphasis on import substitution of consumer goods; 2) deliberate efforts in technologically advanced countries to limit exports of sophisticated productive apparatus to developing countries; and 3) the limited domestic market for certain capital items, making local manufacture too costly.

However, there has never been any doubt of the enormous composite demand for capital goods within the country. Over the past six years imports of investment goods, overwhelmingly machines, tools, and instruments, have never comprised less than 40 percent of total imports. In 1976, it was 45 percent (Table 2), or \$2.5 billion. Over 60 percent of total imports come from the U.S., and Mexico is one of the U.S.' most important international markets.



Capital goods dominate the items appearing on the U.S. Commerce Dept's 1976 "Product Priority Listing" of good U.S. export prospects to Mexico (Table 4). The metalworking machinery category is particularly important as a measure of the growth potential of the economy. In 1974 domestic production totalled \$14 million out of total consumption of approximately \$100 million. The age of machine tools currently in use is an indication of a strong modernizing drive: as of 1974, 27 percent were less than five years old and 33 percent less than ten.

Table 4  
1976 U.S. Dep't. of Commerce  
'Product Priority Listing'  
(top ten items by Mexican import levels 1975)

(MILLIONS OF US \$)

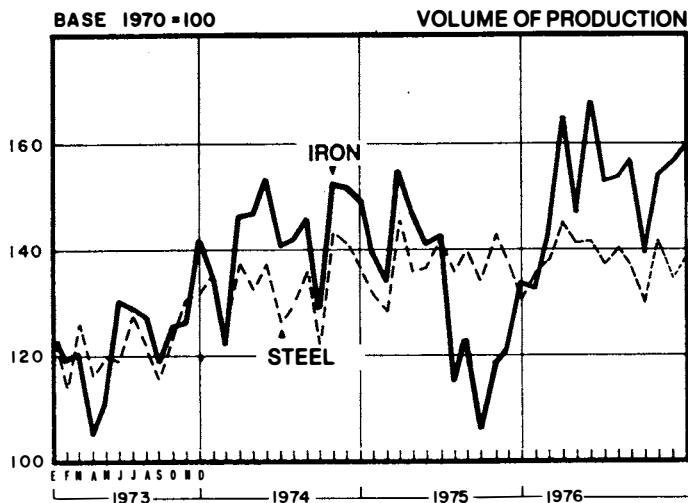
	DOMESTIC PRODUCTION	IMPORTS
AUTOMOTIVE EQUIPMENT	228	760
ELECTRONIC COMPONENTS	530	600
ELECTRICAL POWER EQUIPMENT (1)	522	311
CONSTRUCTION AND MATERIALS HANDLING EQUIPMENT	N.A.	232
ELECTRONIC PRODUCTION AND TEST EQUIPMENT	N.A.	216
CHEMICAL/PETROCHEMICAL PROCESSING EQUIPMENT	N.A.	159
OIL DRILLING EQUIPMENT	105	118
AGRICULTURAL EQUIPMENT	N.A.	107
TEXTILE INDUSTRY EQUIPMENT	0	98
METALWORKING MACHINE TOOLS	N.A.	88

(1) INCLUDES GENERATORS, TRANSMITTERS, DISTRIBUTORS

SOURCE: U.S. DEPARTMENT OF COMMERCE

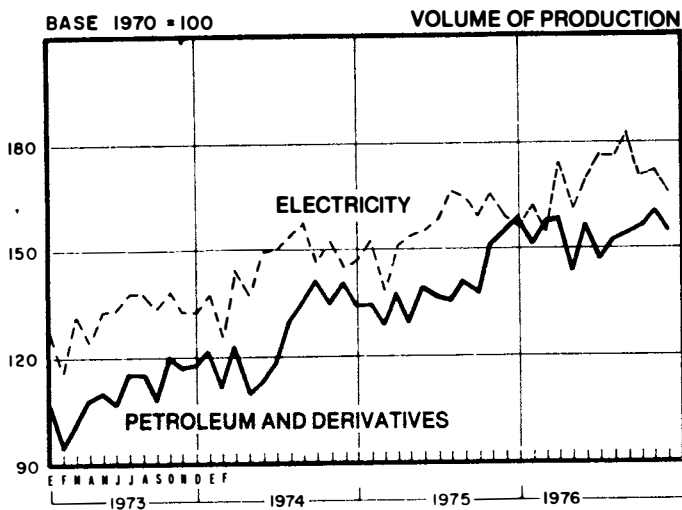
**Oil:**

\$4.6 billion was invested in PEMEX (drilling and refining) during Echeverria's term. Crude output doubled; refining was up 62 percent. Projected investments 1977-1982: \$15 billion, \$5 billion in capital imports. This is the only sector in which financing is assured.



**Steel:**

\$3.6 billion invested 1970-1976, increased capacity from 4.8 to approximately 10 million tons. Production went up from 3.6 million to 7.2 million tons, the largest per capita consumption in Latin America. Current expansion plans: \$3 billion for Las Truchas Stage II, deferred. Capacity needed by 1985 if pre-1976 levels of growth are regained: 16.8 million tons. Estimated cost: \$8 billion.

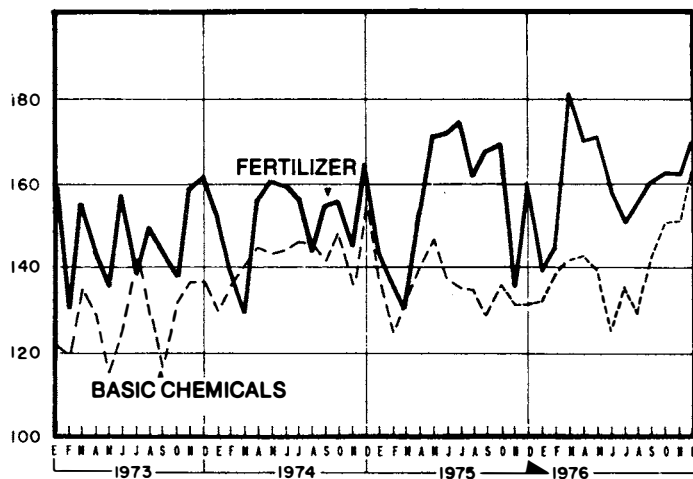


**Electricity:**

Power capacity increased from 6 million KW to 12 million KW at investment cost of \$2.1 billion during Echeverria's term. Currently scheduled projects — if funded fully — will raise generating capacity to 20 million KW by early 1980s. Minimum new investment yearly: \$500 million.

BASE 1970 = 100

VOLUME OF PRODUCTION



**Chemical-Petrochemical:**

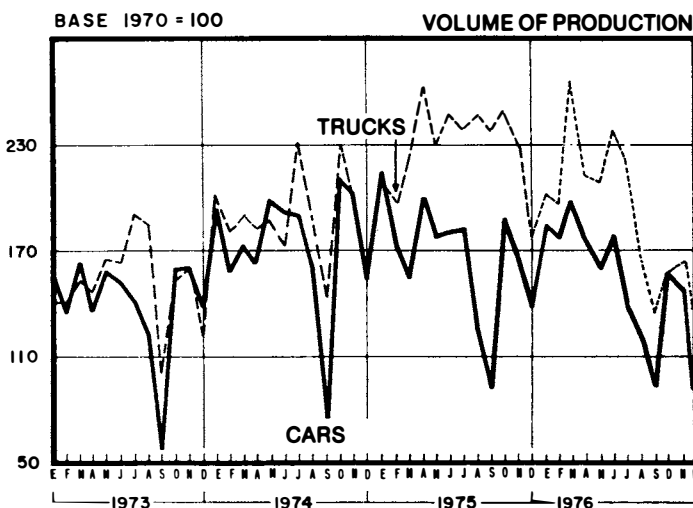
Averaged 15 percent production increase per annum for the last 15 years. 1974 investment: \$472.8 million. 1975: \$411.6 million. Estimate for yearly investments needed 1976-1980: \$616 million (National Association of the Chemical Industry). Annual production volume: over 5 million tons, valued at \$3.0 billion. Plastics (within chemical industry): \$311 million in 1975, 300,000 tons. Projected investment in synthetic resins per year for rest of decade: \$100 million.

**Fertilizers:**

1976 production: 1.7 million tons, up from 1.0 million in 1970. Consumption: 3 million tons. Major expansion efforts underway require sustained financing.

**Cement:**

From 1965-1975, average annual increase of 9.6 percent. Capacity in 1976: 13.5 million tons. Minimum investment needs 1977-1982: \$150 million per year.



**Automobile:**

In depressed conditions since 1974. Average yearly auto production 1974-1976: 240,000 units. Truck and bus production: 100,000 units. Tractors: approx. 10,000 units. Further downturn at end of 1976. Investment needed for conversion of auto capacity to tractor production.