Mexico accepts Kissinger's terms in debt renegotiation

by David Ramonet

Exactly a year ago, Manufacturers' Hannover president Harry Taylor flushed with joy as he celebrated the "end of Mexico's debt crisis" with a gala pinstripe fiesta at New York's Lincoln Center. This past Sept. 7, Citibank's debt collosus William Rhodes, with similar joy but more austerity, announced the re-renegotiation of the 1983 package as part of the stretching out over 14 years of $48.5 due private creditors up through 1988. It was "the largest renegotiation in history," Rhodes gushed.

Though headlines blared, "Mexico wins softer debt terms," in reality the agreement does not exist. The next day, a summer Saturday, 13 New York bankers put their initials, but not their signatures, on the proposed arrangement. Banking sources warn, however, that it will be at least a year before Mexico's 600 creditors draw up and approve the 52 contracts required for the operation. The bankers worked overtime to rush the reputed arrangement into print for no other purpose than to fragment the Mar del Plata, Argentina meeting of Latin America's 11 largest debtors, to take place a few days later.

From a political standpoint, the deal is a victory for the "political approach to debt" advocated for the past two years by Henry Kissinger. The miserable client gets apparent, but really insignificant, "relief" from the crushing burden of debt. In return, Mexico has backed off from leadership of joint Ibero-American efforts to find genuine solutions to the debt crisis. And, it has created the precedent of granting private creditors full access to the economic secrets regularly provided to investigators from the International Monetary Fund (IMF).

Mexico would not have traded off its national sovereignty for a chimera of debt relief had it not been subjected to the gamut of economic and political warfare. U.S. officials have threatened to cut off Mexico's food imports and the U.S. market for its exports and have given overt support to the insurrectionary PAN party of fascists and drug runners to pressure Mexico into taking what looks, under such circumstances, like "the best deal we could get."

The $48.5 billion renegotiation includes the $23 billion restructured last year, $20 billion that were not part of that package, and the $5 billion in credits granted last year. Not included are bonds, loans from governments and multinational agencies, and debts owed by private borrowers.

Mexico not losing much interest

Much has, and will be, said about how Mexico was granted "generous terms from the banks":

- Mexico is reportedly being spared "refinancing charges."
- The interest rate spread will be cut from 2% to an average of 1.1% over the London Interbank Offered Rate (Libor).
- U.S. banks which now have the option of pegging interest to the higher U.S. prime rate will also have to go on a Libor basis.

These "give-aways," on top of the 14-year stretch out on principal repayments, are expected to provoke much bellyaching from smaller U.S. banks which plunged into the Latin American speculation market precisely because they needed usurious returns of 3 to 4% over their cost of borrowing money to cover losses on domestic lending. These screams will be publicized to emphasize that the banks are making "sacrifices" for Mexico. But by postponing bad loans which would otherwise have to be written off, and by guaranteeing that interest payments will be kept current, the bankers are winning major relief from the accounting traumas which have hit them each quarter since the debt crisis began.

A little-noticed part of the debt agreement would bring down Mexico with any rapid fall in the value of the dollar from its current historic highs. The deal is that non-U.S. banks can convert up to half of their dollar loans to Mexico into their own currencies. In practical terms, Mexico would give Dresdner Bank a dollar, rip up a dollar's worth of debt paper, get 3 deutschmarks from Dresdner, and issue it 3 deutschmarks in debt obligations. If the dollar returns to the normal 2 deutschmarks value, Mexico would have to export

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$1.50 worth of oil to pay each $1 now owed non-U.S. banks. *The Wall Street Journal* says the short-term need of Mexico to buy dollars to give to the banks which would then loan them pounds and yen is pushing up the dollar.

No relief

The bottom line is that Mexico will have to pay $50 billion just in interest before President Miguel de la Madrid's term ends on Dec. 1, 1988, according to official projections. That is the equivalent of 75% of the present public foreign debt (officially estimated at $67.5 billion). That $50 billion will not reduce the debt at all. On the contrary, according to the program set with overseas creditor banks, the public debt will increase to $81.3 billion in 1988. With debt owed by private entities, the total will be $110 billion.

Mexican pragmatists say the crisis has been postponed until the next presidency. The truth is that the problem remains here and now, despite the rescheduling.

Last year's rescheduling took the amortizations due from August of 1982 to December of 1984 and bunched them up into the mid- to late-1980s with Mexico only paying interest.

During the past two years, all income from oil exports has gone to pay interest, according to Finance Undersecretary Francisco Suarez Davila. Mexico's imports have been paid through the rapid increase in non-oil exports, made available by brutal reductions in Mexican consumption and productive investment. Except for some border-area sweatshops which suddenly gained a competitive edge, there has been no overall increase in Mexico's export production capacity.

The refinancing operation guarantees that such canibalization of the physical aparatus of the economy and the labor force will be perpetuated for at least the next four years. That is a good recipe for a breakdown.

Poor but honorable?

Under the conditions set, the debt cannot be paid in any other way. Perhaps with this reality in his subconscious, Finance Secretary Jesús Silva Herzog broke through the boastfulness with which he presented the details of the negotiations by declaring, "We don't think that the foreign debt problem has been solved."

Even with total austerity and with usurer acceptance that only interest be paid now, Mexico's income will not be sufficient to pay and to keep the economy going. Therefore, the finance ministry has calculated that the government will need $13.2 billion in new credits by 1988 and a total of $20.8 billion by 1990. But even that will not balance the debt accounts; the government is counting on a net increase of $6.1 billion in foreign direct investment.

A country with a drastically shrunk internal market and with austerity provoking social and political turmoil is hardly attractive to healthy foreign investment. Such funds would come in only to asset strip were Mexico to abrogate sovereignty and hand over existing industries and resources at bankrupcy auction prices.

Who twisted whose arm?

The Mexican press reported Silva Herzog's news as "the banks yield." That is not confirmed by the facts of the case.

Since late 1981, the IMF and the multinational financial oligarchies have realized that the developing countries would not be able to pay their debts under their original terms. The Group of Thirty, the intellectual front of the Swiss banker, designed a strategy to use the debt crisis to smash sovereignty. Their perspective is to create a world council with executive powers to dictate and supervise financial policies of each "sovereign" nation to allow free reign for nation-less capital. This entity would be made up of the IMF and the central banks, act independently from national governments and be coordinated by the Bank for International Settlements, based in Basel, Switzerland.

These entities would offer surveillance over the economies of endebted countries, as they have done to Mexico since 1982. To "keep Mexico on a short leash," the bankers in the first round of renegotiations a year ago only renegotiated debts due through 1984. They tested to see if President de la Madrid was willing to "bite the bullet." He passed the test with flying colors:

- Mexico has religiously paid usurious interest levels;
- Mexico has followed IMF recipes to reduce consumption by 30% and investment by 50%;
- Mexico has gone so far as to repay $1 billion in amortization.

For such subservience, Federal Reserve chairman Paul A. Volcker and other Kissinger allies have insisted the Mexico be given a Pavlovian "reward," so as to serve as an "example" for other debtors such as Argentina and Venezuela which are reluctant to submit to similar IMF-run austerity. However, the confidence of the bankers does not go beyond the technocrats of the present administration. Thus, they have only reprogrammed amortizations due through 1988.

But, even so, the banks fear what would happen when the final disbursement of IMF funds is made to Mexico in 1985, and the country could no longer be blackmailed by IMF disapproval. This problem has been the main reason why it has taken since the February "agreement in principle" on the debt package for this week's draft agreement to be worked out.

To deal with this problem, the Mexican finance ministry has taken the unprecedented step of committing itself to providing all its creditors with the most intimate information on Mexican finances and economy, including the confidential reports prepared for IMF investigators, who will continue to inspect Mexico on a regular basis. Thus, any foreign banker will have better intelligence on the Mexican economy than any Mexican citizen wanting to know.