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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 JAN -4 AM 11:41

January 4, 1977 RECEIVED
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman

Attached are the latest cables on the Mexican
economic situation.

Attachments: Mexico 16258
Mexico 16285

cc: Governor Wallich

Defense classification of this document is due
to the inclusion of U.S. Government information
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highest classified component."





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cc IMF/IBED
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SS - FILE

PAGE 01 MEXICO 16258 302216Z
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 (FRB-01) INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 PA-02 PRS-01 /094 W

-----310739Z 037404 /21

R 301945Z DEC 76
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9441
INFO TREASURY WASHDC

UNCLAS MEXICO 16258

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E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: NEW ADMINISTRATION RATIFIES IMF AGREEMENT.

1. SUMMARY: DECEMBER 30 NEWSPAPERS CARRY GOM PRESS
RELEASE STATING THAT THE NEW ADMINISTRATION HAS RATIFIED
THE AGREEMENT SIGNED WITH THE IMF TWO MONTHS EARLIER.
END SUMMARY.

2. PRESS RELEASE STATES THAT RATIFICATION WILL GIVE
MEXICO THREE YEARS IN WHICH TO REESTABLISH EXTERNAL AND
INTERNAL EQUILIBRIUM. PRESS RELEASE NOTES THAT USING
THE EXTENDED FUND FACILITY WILL AVOID THE NEED TO TAKE
MORE RESTRICTIVE MEASURES THAT WOULD BE NECESSARY IF
EQUILIBRIUM WERE TO BE RESTORED IN A SHORTER TIME
FRAME. SUCH MEASURES WOULD, IT IS NOTED, "DRASTICALLY
AFFECT PRODUCTION AND EMPLOYMENT."

3. USE OF EFF HAS THREE IMPORTANT ASPECTS, ACCORDING TO
PRESS RELEASE. ONE IS THAT IT AVOIDS THE NEED TO RESORT
TO BILATERAL SUPPORT, OR "SIMPLE SUPPORT FROM MARKETS."
THE SECOND IS THAT IT PERMITS A GRADUAL ADJUSTMENT OF
THE ECONOMIC DISEQUILIBRIUM. THE THIRD IS THAT THE

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TECHNICAL SUPPORT OF THE IMF WILL INCREASE INTERNATIONAL SUPPORT OF MEXICAN ECONOMIC POLICIES.

4. PRESS RELEASE CITES THE FOLLOWING AS THE OBJECTIVES OF THE GOM'S ECONOMIC ADJUSTMENT PROGRAMS: (A) TO IMPROVE THE ECONOMIC GROWTH RATE; (B) TO INCREASE EMPLOYMENT OPPORTUNITIES FOR THE GROWING LABOR FORCE; (C) STRENGTHEN INTERNAL SAVINGS, THEREBY REDUCING THE NEED FOR RECOURSE TO FOREIGN BORROWINGS; AND (D) FACILITATE A RELATIVE STABILITY FOR INTERNAL PRICES AND REESTABLISH A "DYNAMIC" EQUILIBRIUM IN THE BALANCE OF PAYMENTS SUSTAINABLE OVER THE MEDIUM TERM.

5. FINALLY, PRESS RELEASE STATES THAT DURING THE ADJUSTMENT PERIOD, THE GOM WILL SEEK TO REESTABLISH "FISCAL EQUILIBRIUM", TO REDUCE THE FOREIGN DEBT TO A HEALTHY AND SUSTAINABLE LEVEL FOR THE LONG TERM, AND TO MAKE STRUCTURAL CHANGES THAT WILL PERMIT A MORE DYNAMIC DEVELOPMENT AND A MORE EQUITABLE DISTRIBUTION OF THE BENEFITS OF THIS DEVELOPMENT.

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MEXICO 16285 302331Z

HIGHER IN EARLY 1977 THAN THEY WERE IN 1975. IT IS VERY LIKELY THAT REAL WAGES IN EARLY 1977 WILL BE GREATER THAN THEY WERE IN 1975, THOUGH SUBSEQUENT INFLATION MAY ERODE THIS. THE INCREASE IN THE NATIONAL CONSUMER PRICE INDEX FROM DECEMBER 1975 TO NOVEMBER 1976 WAS 24 PERCENT. ONE COULD ARGUE THAT NO EMERGENCY WAGE INCREASE WAS NECESSARY IN LATE SEPTEMBER. IT APPEARS INEVITABLE THAT THE SEPTEMBER INCREASE COUPLED WITH THE NEW INCREASE WILL ADD TO INFLATIONARY PRESSURES IN 1977. ONE CAN ONLY PRESUME THAT POLITICAL FACTORS OUTWEIGHED ECONOMIC CONSIDERATIONS IN THE RECENT DECISION.

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MEXICO 16285 302331Z

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 PA-01 PRS-01 /280 W

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R 302301Z DEC 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 9455

INFO TRSY WASHDC

ALL US CONSULATES IN MEXICO BY POUCH

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E.O. 11652: N/A

TAGS: EFIN ELAB MX

SUBJ: MINIMUM WAGES

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1. SUMMARY: NEW MINIMUM WAGES TO BE EFFECTIVE JANUARY ONE, WILL BE 9 OR 10 PERCENT ABOVE PREVIOUS LEVELS. END SUMMARY.

2. MINIMUM WAGE COMMISSION ANNOUNCED ON DEC 29 THAT MINIMUM WAGES BELOW 100 PESOS A DAY WOULD BE INCREASED 10 PERCENT AND MINIMUM WAGES ABOVE 100 PESOS A DAY WOULD BE INCREASED 9 PERCENT. INCREASES TO BE EFFECTIVE JANUARY ONE.

3. NEW MINIMUM WAGE IN URBAN AREAS OF THE FEDERAL DISTRICT WILL BE 106.4 PESOS PER DAY, 35 PERCENT ABOVE WAGE THAT BECAME EFFECTIVE JANUARY 1, 1976, WHEN URBAN MINIMUM WAGE FOR FEDERAL DISTRICT WAS INCREASED 24 PERCENT. RECALL THAT MINIMUM WAGES INCREASED 23 PERCENT, EFFECTIVE

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OCT 1, 1976. WHEREAS MINIMUM WAGE IN FEDERAL DISTRICT DURING 1975 WAS THE EQUIVALENT OF \$5.07 PER DAY (63.4 PESOS), IT WILL BE THE EQUIVALENT OF \$5.32 AT AN EXCHANGE RATE OF 20:1. NEW MINIMUM WAGES ARE SUPPOSED TO BE IN EFFECT UNTIL DECEMBER 31, 1977.

4. MINIMUM WAGES DIFFER FROM REGION TO REGION AND BETWEEN URBAN AND RURAL AREAS WITHIN REGIONS. THE HIGHEST IS IN THE STATE OF BAJA CALIFORNIA NORTE (TIJUANA) WHERE IT IS NOW FIXED AT 133.9 PESOS. THE LOWEST IS IN THE STATE OF OAXACA WHERE IT IS 51.1 PESOS IN RURAL AREAS. MINIMUM WAGES ARE ALSO SET FOR A NUMBER OF SPECIALIZED TYPES OF WORK. FOR EXAMPLE, THE MINIMUM WAGE FOR AUTO MECHANIC IN THE FEDERAL DISTRICT WILL BE 161 PESOS PER DAY.

5. LABOR LEADER FIDEL VELASQUEZ SAID NEW MINIMUM WAGES WERE ACCEPTABLE AND PERMITTED WORKERS TOT RECUPERATE LOST PURCHASING POWER. HE SAID THE NEW WAGES WOULD APPLY TO APPROXIMATELY TWO MILLION WORKERS.

6. EXCELSIOR EDITORIALIZED UNDER HEADING OF "INSUFFICIENT MINIMUM SALARY". IT SAYS THE NEW WAGE LEVELS REFLECT THE TENDENCY TO STABILIZE THE ECONOMY BUT DO NOT PERMIT WORKERS TO ABSORB THE INCREASE IN THE COST OF LIVING DURING 1976, WHICH IT SAYS EXCEEDS THE TOTAL OF THE EMERGENCY MINIMUM WAGE INCREASE AND THE PRESENT INCREASE. EDITORIAL CONCLUDES BY CALLING FOR BASIC REFORM OF ECONOMIC POLICIES, BUT DOES NOT SAY WHAT THIS SHOULD BE. END UNCLASSIFIED.

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7. ASSUMING THAT ALL WAGES HAVE INCREASED MORE OR LESS IN LINE WITH THE DAILY AVERAGE WAGE IN THE FEDERAL DISTRICT, THE DOLLAR COST OF WAGES WILL BE SOMEWHAT

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1977 JAN -5 PM 4:48

January 5, 1976

RECEIVED
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: George B. Henry

Attached is the latest cable on the Mexican economic situation.

Attachment: Mexico 58

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10451 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."





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PAGE 01
ACTION ARA-10

MEXICO 00058 041636Z

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 *FRB-01*
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02
LAB-04 SIL-01 OMB-01 PA-02 PRS-01 AGRE-00 FEAE-00
ERDA-07 /076 W

-----041645Z 068763 /65-

R 041520Z JAN 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9485
INFO TREASURY DEPT WASHDC

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UNCLAS MEXICO 0058

E.O. 11652: N/A
TAGS: EGEN MX
SUBJ: JLP PREDICTS ECONOMIC RECOVERY IN TWO YEARS.

1. SUMMARY. IN TWO RECENT MEETINGS, LOPEZ-PORTILLO HAS STATED THAT THE MEXICAN ECONOMY WILL HAVE RECOVERED IN TWO YEARS, AND THAT SOME IMPROVEMENT IN THE SITUATION CAN BE EXPECTED BY MID-77. END SUMMARY.

2. PRESIDENT LOPEZ-PORTILLO TOLD A DELEGATION FROM THE MEXICAN CONGRESS ON DECEMBER 31, THAT IT WILL TAKE TWO YEARS TO "RECONSTITUTE" THE MEXICAN ECONOMY. HE SAID THE NEXT SIX MONTHS WOULD BE PARTICULARLY DIFFICULT, BUT THAT BY JUNE OR JULY, ONE WILL BE ABLE TO SEE THE "OTHER FACE" OF THE DEVALUATION.

3. JLP CALLED THE 1977 BUDGET NEITHER DEFLATIONARY, NOR INFLATIONARY BECAUSE IT IS AIMED AT INCREASING PRODUCTION. THIS IS, HE SAID, THE ONLY AND MOST INTELLIGENT WAY TO OVERCOME INFLATION. HE WENT ON TO NOTE THAT MEXICO CAN BE SELF-SUFFICIENT IN FOODSTUFFS AND IN ENERGY, AND THIS PROVIDES THE BASIS FOR A STRONG ECONOMY. HE RELATED THE RECOVER IN TWO YEARS TIME TO TWO

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AGRICULTURAL SEASONS.

4. LOPPEZ-PORTILLO CALLED THE "MODEST" MINIMUM WAGE INCREASE A LESSON IN RESPONSIBILITY THAT BEGINS A PROCESS OF SOLIDARITY WHICH CAN BREAK THE INFLATIONARY SPIRAL.

5. JLP TOUCHED ON SIMILAR THEMES IN A MEETING WITH FEMALE JOURNALISTS SEVERAL DAYS EARLIER. HE TOLD THE JOURNALISTS THAT THE ECONOMIC SITUATION WILL BE BETTER BY JUNE OR JULY, AND THAT MEXICO HAS TO EXPORT CRUDE OIL IN ORDER TO BE ABLE TO STOP EXPORTING IT AT A FUTURE DATE.

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1977 JAN 10 PM 2:15

January 10, 1977

RECEIVED
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman

Attached is the latest cable on the Mexican economic situation.

Attachment: Mexico 168

cc: Governor Wallich

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PAGE 01 MEXICO 00168 060128Z
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OFIC-06 LAB-04 SIL-01
PA-02 PRS-01 /094 W

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R 060011Z JAN 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9538
INFO TREASURY WASHDC

UNCLAS MEXICO 168

E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: RECENT ECONOMIC INDICATORS

REF: 76 MEXICO 15716

1. THIS CABLE REPORTS MOST SIGNIFICANT DATA IN BANK OF MEXICO'S ECONOMIC INDICATORS FOR NOVEMBER 1976.

2. MONEY SUPPLY (UNADJUSTED) AT END OCTOBER WAS 124,539.6 MILLION PESOS. COINS AND BANK NOTES WERE 61,875.4 MILLION PESOS AND DEMAND DEPOSITS WERE 62,664.2 MILLION PESOS. SEASONABLY ADJUSTED MONEY SUPPLY AT END-OCTOBER WAS 128,211.5 MILLION PESOS.

3. LIABILITIES OF BANKING SYSTEM (TABLE 1-4) AT END-OCTOBER WERE 710,512.2 MILLION PESOS OF WHICH 391,517.8 MILLION WERE IN PESOS AND 318,994.3 MILLION IN FOREIGN EXCHANGE. CONVERSION RATE WAS 25.4. NOTE THAT PESO LIABILITIES ARE SAME AS END-APRIL LEVEL. INCREASE IN LIABILITIES IS DUE IN LARGE PART TO REVALUATION OF FOREIGN EXCHANGE LIABILITIES. BULK OF FOREIGN EXCHANGE LIABILITIES (251,609.7 MILLION PESOS) BELONG TO NATIONAL

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CREDIT INSTITUTIONS, EX-BANK OF MEXICO. OF THESE, 224,164.2 MILLION WERE LOANS FROM FOREIGN BANKS. DOLLAR CHECKING ACCOUNTS WERE 11,307.6 MILLION PESOS.

4. TOTAL FINANCING OF BANKING SYSTEM AT END-SEPTEMBER WAS 622,047.5 MILLION PESOS, AND AT END-OCTOBER, WAS 675,863.8 MILLION PESOS.

5. FEDERAL GOVERNMENT REVENUE IN OCTOBER WAS 10,779.5 MILLION PESOS. EXPENDITURES WAS 15,393.9 MILLION PESOS.

6. INDUSTRIAL PRODUCTION INDEX DATA FOR 1976 REVISED. INDEX MEMBERS FOR JANUARY-SEPTEMBER NOW AS FOLLOWS: 139.5, 140.7, 151.8, 140.6, 145.9, 147.4, 145.1, 143.7, 138.9.

7. NATIONAL CONSUMER PRICE INDEX FOR NOVEMBER IS 249.1, UP 4.5 PERCENT FROM OCTOBER AND 25.1 PERCENT FROM NOVEMBER 1975.

8. MEXICO CITY WHOLESALE PRICE INDEX FOR NOVEMBER WAS 425.6, UP 8.2 PERCENT FROM OCTOBER AND 40.1 PERCENT FROM NOVEMBER 1975.

9. BALANCE OF PAYMENTS DATA UNCHANGED. OCTOBER IMPORTS WERE 444.5 MILLION; EXPORTS WERE 238.1 MILLION. OCTOBER TOURIST RECEIPTS WERE 57.3 MILLION AND EXPENDITURES WERE 22.5 MILLION. FRONTIER RECEIPTS WERE 122.0 MILLION AND EXPENDITURES WERE 74.0 MILLION.

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January 11, 1977 1:15 PM

RECEIVED
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman

Attached are the latest cables on the Mexican economic situation.

Attachment: Mexico 232
Mexico 233
Mexico A-33

cc: Governor Wallich

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02
PRS-01 1-03 H-02 AGRE-00 /099 W

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R 070022Z JAN 72
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9556
INFO TREASURY WASHDC

SEC 2 ATTACHED

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UNCLAS SECTION 1 OF 2 MEXICO 0232

E.O. 11652: N/A

TAGS: EGEN MX

SUBJ: PRESIDENTIAL DECEMBER 31 REMARKS ON RECENT LEGISLATION.

REF: MEXICO 58

1. BELOW IS OUR INFORMAL TRANSLATION OF PRESIDENT LOPEZ-PORTILLO'S REMARKS TO A SENATE DELEGATION ON DECEMBER 31. PRESS RELEASE CALLS REMARKS "IMPROVISED". INTRODUCTION PARAGRAPHS ARE DELETED.

2. "WE HONESTLY BELIEVE THAT THE ORGANIC LAW OF PUBLIC ADMINISTRATION, THE LAW OF BUDGET AND ACCOUNTING, THE LAW OF PUBLIC DEBT AND THE IMPROVEMENTS TO THE ORGANIC LAW, CONSTITUTE A FUNDAMENTAL BASIS FOR IMPROVING THE ADMINISTRATIVE FUNCTIONING OF OUR NATION, CONSIDERING THAT OUR COUNTRY, PERHAPS MORE THAN UNDER-DEVELOPED, MAY BE UNDER-ADMINISTERED

3. "WE HAVE MANY RESOURCES, SOME NON-RENEWABLE, OTHERS THAT ARE, MANY HUMAN, LIMITED AND CONGESTED FINANCING, BUT WE HAVE THEM. THENCE IT IS ORGANIZATION THAT MAY BE THE FACTOR WITHIN OUR HUMAN ABILITIES TO WHICH WE ARE MOST ACCOUNTABLE PRECISELY BECAUSE IT DEPENDS ON OUR ABILITY.

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4. "WE ARE PLACED IN AN EXTRAORDINARY COUNTRY. IT IS ORGANIZATION THAT TERMINES OUR RELATIONSHIPS, AND THIS COULD BE SUCCESSFUL OR DEFICINET, IF WE SUCCEED OR NOT IN ORGANIZING OURSELVES; IF WE SOUCCEED OR NOT IN MEETING OBJECTIVES, IN FINDING GOALS, AND PLACING THEM IN SPACE AND TIME AND ORGANIZING THUS OUR RESPONSIBLE ACTIONS.

5. "I APPRECIATE THAT IT IS BY ORGANIZATION, AS THE FUNDAMENTAL RESPONSIBILITY OF A FREE BEING THAT MAN CAN GOVERN HIS DESTINY IF HE SUCCEEDS IN PERFORMING WITHIN HIS FREEDOM IN AN ORIENTED COURSE.

6. "FROM THAT COMES THE IMPORTANCE THAT I GIVE TO ADMINISTRATION, TO ORGANIZED SERVICE, IN THE FUNCTION OF OUR COMMON DUTIES. THEREFORE, I AM ESPECIALLY GRATEFUL FOR THE EFFORT, THE COLLABORATION THAT YOU GAVE US IN THE CONCEIVING AND IMPETUS TO THE ADMINISTRATIVE REFORM, THAT SHALL PERMIT US TO BE ABLE TO COUNT ON SUFFICIENT INSTRUMENTS TO ADVANCE THE PROGRESS OF THE COUNTRY.

7. "I APPRECIATE AS WELL THE EFFORT MADE TO DEVELOP, TO IMPROVE, AND TO APPROVE A BUDGET SO DIFFICULT AS THE ONE WE HAVE HAD TO PRESENT, A BUDGET DRAWN UP BETWEEN TWO ADMINISTRATIONS, BETWEEN TWO ORGANIZATIONS, THE RESULT OF BASIC ADMINISTRATION REFORM AND ABOVE ALL BETWEEN TWO DEVALUATIONS. A BUDGET COMPRISED BY THE RISK OF POSSIBLY BEING INFLATIONARY, BY THE GRAVE DANGER THAT IT COULD BE DEFLATIONARY, BY THE POSSIBILITY THAT PERSISTS THAT IF WE ERR IN ITS MANAGEMENT, WE WILL HAVE THE WORST OF ALL POSSIBLE WORLDS: INFLATION WITH UNEMPLOYMENT, WHICH IS THE BASIC PROBLEM EXISTING IN THE COUNTRY AND WHICH WE DO NOT WISH TO SEE GROW.

8. "WE BELIEVE THAT THE BUDGET IS NOT INFLATIONARY, NEITHER FOR ITS AMOUNT, UNFORTUNATELY ONLY SLIGHTLY ABOVE THE PAST LEVELS AND POSSIBLY LESS THAN THE POPULATION INCREASE, FOR THE PURPOSE OF INCREASING PRODUCTION.

9. "I BELIEVE THAT EXPENDITURE ORIENTED TO PRODUCTION IS NEVER EXCESSIVE, BECAUSE IT IS ONLY PRODUCTION THAT WILL REMOVE US FROM THE INFLATIONARY RISKS: GROWTH IS THE MOST INTELLIGENT FORM OF COMBATTING INFLATION. OF COURSE, IT CAN ALSO BE DONE - AND THIS IS DONE BY MANY RIGOROUS ECONOMIES THAT ALMOST ALWAYS FALL INTO FASCISM-

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BY FORCEABLY REPRESSING THE SAVINGS OF THOSE WITH THE LEAST, INSTEAD OF ACTING AGAINST THOSE WHO HAVE THE MOST. ONE CAN ALSO REDUCE DEMAND BY FORCE. THIS IS A MEANS OF CONTROLLING PROBLEMS SUCH AS WE FACE. BUT IT IS MORE INTELLIGENT AND MORE DESIRABLE TO ACT IN THE AREA OF PRODUCTION.

10. FOR THIS REASON, THE BUDGET WE HAVE APPROVED HAS TWO BASIC PRIORITIES: FOOD AND ENERGETICS. A COUNTRY THAT HAS SUFFICIENT OF THESE TWO PRIORITIES CAN MAKE HEADWAY, AND OURS HAS THEM.

11. "I APPRECIATE THE EFFORTS THAT YOU HAVE MADE IN ORDER TO PASS THE BUDGET, AS YOU HAVE MADE IN THE AREA OF TAX REFORM, WHICH HAS JUSTIFIABLY BEEN CALLED WEAK, BUT IT IS A TAX REFORM BECAUSE IT HAS A STRUCTURE.

12. "WE HAVE VERY LITTLE ROOM FOR MANEUVERS. BOXED IN BY THE INERTIA OF EVENTS, WE DON'T HAVE MUCH AREA TO MOVE IN, WE DON'T HAVE TIME TO RELAX; BUT THE LITTLE AREA WE DO HAVE PERMITS US TO BEGIN, AT LEAST IN AN INDICATIVE WAY, AND I HOPE NOT ONLY SYMBOLICALLY, AN AUTHENTIC TAX REFORM, BY WHICH WE FREE LOW-INCOME GROUPS FROM THE INCOME TAX. OF COURSE WE HAVE NOT BEEN FREE FROM CRITICISM FOR SOME HAVE SAID THAT THIS MEASURE TENDS TO INCREASE THE IRRESPONSIBILITIES OF A MAJORITY OF THE POPULATION.



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ACTION ARA-10

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INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02
PRS-01 L-03 H-02 AGRE-00 /099 W

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R 070022Z JAN 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9557
INFO TREASURY WASHDC

UNCLAS SECTION 2 OF 2 MEXICO 00232

13. "STRICTLY SPEAKING, WHAT WE ARE DOING IS STRENGTHENING JUSTICE BY INCREASING THE CONSUMPTION CAPACITY AND DEMONSTRATING THE DISPOSITION OF TAX AUTHORITIES TO SACRIFICE AN IMPORTANT SOURCE OF REVENUE IN ORDER TO ALLEVIATE PRESSURES ON PRICES AND THEREBY PERMIT THAT, IN RELATION TO WAGES, THE PRICE-WAGES POLICIES MAY BE LESS MALIGNANT.

14. "AND HERE I WANT TO REPEAT VERY BRIEFLY TO YOU SOMETHING I HAVE JUST SAID TO THE REPRESENTATIVES OF THE CHAMBER OF DEPUTIES: THAT LESSON, THAT BEAUTIFUL LESSON, THAT RISKY LESSON OF HISTORIC RESPONSIBILITY, THAT OF THE WORKING CLASS OF MEXICO IN UNANIMOUSLY ACCEPTING SUCH A MODEST INCREASE IN THE MINIMUM WAGE. A SACRIFICE THAT BEGINS A PROCESS OF SOLIDARITY THAT I HOPE WILL BE CONFIRMED BY OTHER SOCIAL CLASSES.

15. "IT IS IN THIS MANNER THAT ONE CAN BREAK THE INFLATIONARY SPIRAL, WITH SUCH RESPONSIBLE AND HAZARDOUS ACTS, BY COMPROMISES - THE PURELY NOMINAL DEMOGOGUERY IS EASY - THAT CAN RESOLVE THE CRITICAL SITUATIONS THROUGH WHICH WE LIVE.

16. "WHAT I JUST SAID A MOMENT AGO TO THE DEPUTIES, MANY STILL HERE, NOW I REITERATE BEFORE THIS COMMISSION BECAUSE IT SEEMS TO ME AN HISTORIC EXAMPLE, THE FORCE, THE SACRIFICE OF THE WORKING CLASS.

17. "WITH THESE MEANS IT IS BELIEVABLE THAT WE CAN GOVERN EVENTS. I AM SURE THAT WE WILL BE ABLE TO DO SO IN THE COMING DIFFICULT

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DAYS. WE ARE GOING TO BEGIN THE CLIMB IN JANUARY, A CLIMB THAT HAS BEEN IGNORED BY MANY BECAUSE OF THE DECEMBER HOLIDAYS; BUT THIS CLIMB BEGINNING IN JANUARY IS GOING TO BE DIFFICULT, VERY DIFFICULT. IT WILL BE, AS WE HAVE SAID ON OTHER OCCASIONS, A VERY DIFFICULT SIX MONTHS, BECAUSE IT WILL NOT BE UNTIL JUNE OR JULY WHEN WE BEGIN TO SEE THE OTHER FACE OF THE DEVALUATION, UNTIL NOW BITTER.

BEGINNING IN THESE MONTHS, WE WILL BEGIN TO SEE POSITIVE ASPECTS.

18. "THESE SIX MONTHS WILL FORM PART OF WHAT I BELIEVE WILL BE TWO YEARS DURING WHICH WE WILL BE ABLE TO RECONSTITUTE OUR ECONOMY. TWO YEARS, I SAY, NOT AS A MAGIC OR ARBITRARY NUMBER, TWO YEARS BECAUSE THESE ENCOMPASS TWO AGRICULTURAL CYCLES DURING WHICH WE CAN ORGANIZE PRODUCTION IN THE COUNTRY. BEGINNING WITH THIS EFFORT, ONE INITIAL, ANOTHER CONTINUED, SELF-SUFFICIENCY IN FOOD WILL ENABLE US TO CEASE IMPORTING GRAINS AND OILSEEDS THAT MAKE UP THE DEFICIT WHICH DE-BALANCES US IN THIS AREA.

19. "IF WE SUCCEED, THE COUNTRY AFTER TWO YEARS WILL BEGIN TO SEE BETTER TIMES. I DO NOT DOUBT THAT IF WE ACT WITH THE RESPONSABILITY SHOWN BY THE WORKERS SECTOR, WITH THE COLLABORATION OF WHICH YOURS HAVE BEEN AN EXAMPLE, THE COUNTRY WILL FACE UP TO ITS RISKS AND OVERCOME THE CRISIS.

19. "I AM CERTAIN OF IT. THE COUNTRY IS YOUNG, IT IS FLEXIBLE, IT IS POWERFUL. IT IS DISORGANIZED. WE ARE GOING TO ORGANIZE IT BETTER, WITH COURAGE, OCCASIONALLY WITH SACRIFICES, BUT ALWAYS WITH A FIRM WILL.

20. "I THANK YOU FOR YOUR VISIT, YOUR ASSISTANCE, AND WISH TO YOU AND YOUR FAMILIES A PLEASANT NIGHT AND THAT THE NEXT YEAR BE HAPPY FOR ALL.

21. "THIS WISH WILL BE RENEWED NEXT YEAR IN ORDER THAT 1978 SHOULD BE BETTER.

22. "I WISH THAT MEXICO SHOULD BEGIN TO LIVE EACH DAY BETTER THAN THE NEXT. I WISH THIS FOR YOU; ON OUR PART WE WILL MAKE EVERY EFFORT THAT WE CAN IN ORDER THAT THIS WILL BE SO."

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MEXICO 00233 071548Z

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E. O. 11652: N/A
TAGS: EFIN MX EALR MX
SUBJECT: KEY MINISTER'S ECONOMIC VIEWS.

1. SUMMARY: MINISTER OF NATIONAL PROPERTIES AND INDUSTRIAL DEVELOPMENT TOLD PRESS CONFERENCE THAT FURTHER REDUCTIONS IN CONSUMPTION WERE NOT POSSIBLE AND ONLY THROUGH INCREASED OUTPUT COULD INFLATION BE OVERCOME. HE ALSO SAID THAT GOVERNMENT WOULD NOT INTERFERE WITH PRIVATE INDUSTRY.

END SUMMARY.

2. JOSE ANDRES DE OTEYZA, MINISTER FOR NATIONAL PROPERTIES AND INDUSTRIAL DEVELOPMENT, HELD A PRESS CONFERENCE ON JANUARY 5. DE OTEYZA IS THE YOUNGEST MINISTER (AT AGE 34), AND HIS MINISTRY'S RESPONSIBILITIES HAVE BEEN EXPANDED TO INCLUDE THE GOVERNMENT'S INDUSTRIAL DEVELOPMENT EFFORTS AS WELL AS MANAGEMENT OF MOST GOV-OWNED INDUSTRIAL PROPERTIES. HE IS CAMBRIDGE-EDUCATED AND HIS VIEWS APPEAR TO REFLECT THE SO-CALLED CAMBRIDGE SCHOOL OF ECONOMICS. HE IS SAID TO BE INFLUENTIAL IN THE NEW ADMINISTRATION. WE ARE, THEREFORE, REPORTING THE VIEWS HE EXPRESSED AT A PRESS

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CONFERENCE IN THE FOLLOWING PARAGRAPHS WHICH ARE BASED ON NEWSPAPER ACCOUNTS.

3. THE ONLY MANNER TO BREAK THE INCREASE IN PRICES IS TO INCREASE SUPPLY BY INCREASING OUTPUT. UNFORTUNATELY, MEXICO IS A RELATIVELY POOR COUNTRY AND IT IS NOT POSSIBLE TO BRAKE DEMAND OR REDUCE CONSUMPTION.

4. IN SEVERAL YEARS, THE BASIC INVESTMENTS IN SUCH AREAS AS STEEL, ENERGY AND FERTILIZER WILL BEGIN TO PAY OFF IN TERMS OF INCREASED OUTPUT. THE NATURE OF INVESTMENTS IN THESE AREAS ARE SUCH THAT THERE IS A LONG LEAD TIME BEFORE FULL PRODUCTION CAN BE ATTAINED. THIS SAME TIME SPAN IS NECESSARY TO RESTRUCTURE AND ORGANIZE AGRICULTURAL PRODUCTION. (COMMENT: THE PAST ADMINISTRATION JUSTIFIED INCREASES IN PUBLIC SPENDING AND SUBSEQUENT INFLATION BY MAINTAINING THAT EVENTUALLY THE FRUITS OF PUBLIC SECTOR INVESTMENTS WOULD REDUCE INFLATION. THE NEW GROUP SEEMS TO BE SAYING THAT THIS IS STILL SEVERAL YEARS OFF.)

5. THE GOVERNMENT WILL NOT INTERFERE WITH PRIVATE SECTOR PLANS, EVEN IF THIS MEANS INVESTMENTS IN NON-PRIORITY AREAS. THE PRIORITY AREAS ARE FOODSTUFFS, ENERGY, STEEL, PETROCHEMICALS, FERTILIZERS, CAPITAL GOODS AND BASIC CONSUMPTION GOODS.

6. REGARDING OIL, MEXICO IS EXPORTING 150,000 BARRELS A DAY, THEREBY EARNING \$700 MILLION A YEAR, WHICH IS HELPING THE BALANCE OF PAYMENTS AND FINANCING IMPORTS OF ESSENTIAL GOODS. OIL IS NOT BEING EXPORTED INDISCRIMINATELY, BUT RATHER OIL IS A RESOURCE THAT MUST BE USED RATIONALLY. IT IS NOT BEING WASTED, AND THE COUNTRY WILL NOT BE IMPOVERISHED IN THE FUTURE.

7. PUBLIC SECTOR AS WELL AS PRIVATE ENTERPRISES SHOULD

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BE PROFIT-MAKING. PROFITS ARE THE BASIS OF CAPITAL. HOWEVER, PUBLIC SECTOR ENTERPRISES HAVE BROADER RESPONSIBILITIES THAN PRIVATE ENTERPRISES. IN ANY CASE, SUBSIDIES FOR PUBLIC SECTOR ENTERPRISES SHOULD BE TRANSITORY AND OPEN, RATHER THAN PERMANENT AND HIDING INEFFICIENCIES.

8. COMMENT: DE OTEYZA'S VIEWS ON OVERCOMING INFLATION THROUGH INCREASED OUTPUT AND THE NEED FOR TWO YEARS BEFORE ANY SIGNIFICANT PROGRESS IS MADE ECHO THOSE OF THE PRESIDENT (SEE MEXICO 58), AND VERY LIKELY INFLUENCED THESE.

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Mexico
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A-33

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TO : US DEPARTMENT OF STATE, WASHDC
INFO: US DEPARTMENT OF COMMERCE, WASHDC
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INTERNATIONAL INFORMATION CENTER

FROM : AMCONSUL, MONTERREY
E.O. 11652: NA
TAGS: PINT, ECON, MX
SUBJECT: MONTHLY HIGHLIGHTS REPORT, DECEMBER, 1976

DATE: December 21, 1976

REF: MONTERREY A-32 OF NOVEMBER 23, 1976

S U M M A R Y

Monterrey area residents reacted favorably to President López-Portillo's call for hard work, his lack of rhetorical excess, and his favorable comments on private investment.

PRI candidate César Santos has been declared winner of the Monterrey mayoral election but his PAN opponent Pablo Emilio Madero continues to charge election fraud.

Land expropriations by the Government last month in Sonora led to a wave of land invasions in the Monterrey consular district and to a one day "businessmen's strike" that attracted widespread support.

Protesting higher fares, Monterrey area students and posesionarios seized over one hundred privately-owned busses, provoking a brief suspension of service by bus owners.

Nuevo León Governor Zorrilla Martínez has been subjected to increasing criticism on issues such as the municipal elections, bus seizures, and his precipitate dismissal of the head of Monterrey's water company.

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Drafting Date:

12/17/76

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Clearances:



REACTION TO LOPEZ-PORTILLO

Monterrey businessmen, industrialists and political columnists breathed a sigh of relief when José López-Portillo assumed the Presidency on December 1. The tone of his inaugural address was well received, particularly his favorable comments on private investment. Local editorial opinion lauded both the style and substance of his comments and particularly welcomed his lack of rhetorical stridency, which distinguishes him so clearly from his predecessor. The new administration's firmness in dealing with invasions of private land by squatters was well received. Important business groups have supported López-Portillo's public call for a wage policy based on actual cost of living increases and they are watching carefully to see what action he will take when minimum wages are adjusted in January. Another plus for the new President is his appointment of a respected regiomontano as foreign minister and his selection of Monterrey's popular lame-duck mayor to a senior post in the national administration. Overall, López-Portillo's inaugural call for hard work as the solution to Mexico's problems fell on very receptive ears in a region which prides itself on its industriousness.

ELECTION OF SANTOS RATIFIED, PANISTA PROTESTS CONTINUE

Two weeks after the December 5 election, Partido Acción Nacional (PAN) mayoral candidate in Monterrey, Ing. Pablo Emilio Madero, continues to claim that he was fraudulently deprived of victory by the machinations of the ruling Partido Revolucionario Institucional (PRI). In what many local observers consider the most corrupt municipal elections in recent memory, the PRI has been accused of widespread abuses, including double and triple voting by prístas, threats and intimidation against PAN poll-watchers and sympathizers, and the sudden reappearance of "lost" ballots and tally sheets at hastily-called meetings of the local Juntas Computadoras (JC).

PAN's strategy has been to appeal directly to Federal authorities to seek a recount of what the PAN has characterized as the "spurious, illegitimate, bastard vote count" of the Junta or a complete annulment of the elections. PAN and various private citizens and groups have sponsored advertisements and open letters to President José López Portillo as well as to Gobernación Secretary Lic. Reyes Heróles. Concurrently, the panistas are mounting an extensive publicity campaign within Monterrey, aimed both at



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presenting what the party considers conclusive proof of a Madero victory and at challenging the vote claims of the PRI. Bumper stickers reading "I voted for Madero" abound. In attacking the Junta, Madero and the PAN have been joined by a number of newspaper columnists, who have taken great pains to argue the mathematical improbability of the Junta's vote count. PAN is also protesting the awarding of mayoral victories to the PRI in the Monterrey suburbs of Garza García and Santa Catarina. In Garza García, which has had PAN mayors for the past nine years, PAN complaints center on two precincts in which ballots disappeared from the polling places on the day of the election and mysteriously reappeared at a hastily-called meeting of that town's Junta Computadora to which PAN representatives were not invited. PAN candidate (and former Mayor) Junco accompanied Monterrey PAN mayoral nominee Madero to Mexico last week to present his case to the Gobernación Secretary. Garza García panistas have mounted a series of mass demonstrations in the municipality, both in front of the residence of State Governor Zorrilla Martínez and in various local plazas. PAN is also contending that widespread PRI intimidation of its poll-watchers and sympathizers is sufficient to invalidate the PRI victory in the Santa Catarina suburb.

The PAN was successful in retaining the mayoralty of the industrial suburb of San Nicolás de los Garza, where Ing. Jesús Hinojosa T., was elected decisively on December 5. However, the PRI won in all outlying towns in the State.

LAND SEIZURES

President Echeverría's expropriation of 100 thousand hectares of farmland in Sonora prompted a quick and coordinated response from this area's business community. Leaders of Monterrey's Cámara Nacional de Comercio (CANACO), Cámara de la Industria de Transformación de Nuevo León (CAINTRA) and the Centro Patronal exhorted businessmen to close their doors on November 24 in a one day "sympathy strike" in support of the Sonora landowners. Businessmen's organizations in Saltillo and Torreón made similar appeals. Spokesmen of the businessmen's associations called the expropriation a "flagrant violation" of the constitution and claimed that the Sonora incident "proved that the executive branch is all-powerful, with a servile legislature and an impotent judiciary".

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Response to the strike call was impressive. Downtown Monterrey was deserted with nearly all retailers shut down. All the industrial conglomerates in Monterrey closed their doors to the public, except the Fundidora steel mill, which is part government-owned. Banks and gas stations stayed open. Eighty percent of commercial establishments were reported shut down in both Saltillo and Torreón.

Echeverría's land expropriations in Sonora triggered campesino organizations in the consular district to initiate "occupations" of private landholdings. The Federación de Obreros y Campesinos in Durango seized more than 100 thousand hectares of cattle land alongside the Panamerican Highway on November 29. The squatters explained that their action was timed for the last days of the Echeverría administration because they feared López Portillo might not tolerate such land invasions. Most of the squatters were peacefully expelled hours later. Evictions of illegal squatters also took place in rural Nuevo León and in urban Saltillo and Torreón.

GOVERNOR ZORRILLA DRAWS INTENSIFIED CRITICISM

Criticism directed at Nuevo León Governor Pedro Zorrilla Martínez intensified during the month. Local newspapers increasingly provided a public forum for accusations against the Governor, with representatives of bus owners blaming him personally for some 27 million pesos in losses suffered as a result of bus seizures, spokesmen for the PAN blaming him for "cooking up the monumental electoral fraud" perpetrated against their party, and various private sector sources faulting his frequent absences from the state, his "unconstitutional" conduct in replacing the manager of the local water company, and his failure to defend regiomontanos against Echeverría's verbal attacks. The Governor, a protégé of Echeverría, always staunchly defended the former President in his frequent confrontations with "regiomontano" business leaders. Now that Zorrilla Martínez has lost his patrón in Mexico City, his numerous local opponents feel free to attack him without restraint.

BUS DISPUTES AGAIN

Urban transportation disputes broke out once again in Monterrey with the seizure of busses by dissident students and posesionarios. Close to 150 busses were seized in protest against higher bus fares. Bus owners retaliated by withdrawing their



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remaining busses from service. Public schools closed for several days during the stoppage and absenteeism and tardiness mounted in business enterprises. On December 9 University Rector Todd helped mediate an agreement which included the return of all but eight of the seized busses, which were retained as "hostages", a freeze on the new bus fares, a restoration of student discounts, and an improvement of bus maintenance and routes.

POLITICAL MISCELLANY

The Saltillo and Torreón campuses of the Autonomous University of Coahuila (AUC) appear to be back to normal after the peaceful resolution of student seizures of several university buildings and the settlement of a strike by State education employees. In Saltillo, the ten-day student occupation of the rectory building ended on November 21 when the University Rector agreed to discuss the reinstatement of several professors who had been suspended. Also in Saltillo, striking AUC administrative workers were dislodged from the School of Nursing by students who were concerned over the loss of the fall semester. In Torreón, medical students seized the administrative building in protest of the choice of the director of the AUC's Children's Hospital. A pledge by the Rector to reconsider the appointment led to the students' decision to leave the building after 24 hours.

ECONOMIC MISCELLANY

Rapid inflation continues. The Economic Research Center of the State University estimates a six percent hike in the local consumer price index for the month of November alone. The Center calculates that consumer prices rose 25.5% between November 1975, and November, 1976. Food prices rose 19%, lodging 19%, clothing 31%, and transportation 56%.

Leaders of three influential Monterrey business organizations have publicly recommended a new system of wage control based on actual cost of living increases. They propose establishing a system wherein labor contracts will contain a clause for a cost of living escalator computed on a quarterly or semiannual basis. They claim their proposal will eliminate wild estimates and predictions of inflation which are used to justify unreasonable wage demands. What they are advocating seems to be a detailed version of the vague proposal in López Portillo's inaugural address calling for a link between salaries and the cost of living.

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Local auto sales are at rock bottom. The director of the local association of auto dealers stated that 20 car distributorships in the area had sold only seven 1977 cars during the month of November. The cheapest 1977 model costs 85 thousand pesos and credit is still tight. Meanwhile, automotive repair and maintenance shops are reported doing a booming business. To stimulate new car sales, the auto association has recommended that part of the Central Bank's reserves be devoted to rediscounting car loan paper.

An agricultural team from the Soviet Union studying Mexican programs for the biological control of plant diseases visited the La Laguna region (centered around Torreón, Coahuila) for one week in late November. Heading the Soviet delegation was the USSR's Agricultural Attaché in Mexico, Dr. Anatoli Kirushev. The group visited a number of ejidos and the Mexican Center for the Reproduction of Beneficial Insects.

Outgoing Monterrey Mayor Leopoldo González Sáenz has been appointed Subsecretary for Public Works in the López Portillo administration. In a statement to the press following his appointment, "Polo" noted that the functions of the Secretariat of Public Works would be substantially upgraded in the government reorganization plan espoused by López Portillo in that responsibility for "Asentamientos Humanos" would be incorporated into the new "superagency". Public Works would also absorb or oversee a number of heretofore independent decentralized agencies and commissions.

The rapid growth in size of the Autonomous University of Nuevo León (UANL) in recent years may soon be reversed. Rector Luis E. Todd has asked the University Council to begin limiting enrollment in August, 1977. Todd has also approached State Governor Pedro Zorrilla Martínez with the idea of creating both a new state university and a "colegio de Bachilleres". Meanwhile, the university continues in financing difficulty. Blaming delays in the receipt of some 16 million pesos from the state government, Todd recently stated that the university has insufficient funds to pay the Christmas bonuses due to its more than three thousand employees.

Area citrus farmers are distressed because of overproduction and attendant weak prices. They also claim distress because of restricted exports to the United States. The local citrus organizations estimates 650 pesos per ton as the industry's break-even price, while current prices per ton have fallen to 300 pesos. The citrus organization also concedes that the high quality of U.S., Spanish, and Israeli oranges militates against Mexican export prospects.

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The directors of the Public Health Service and the Family Planning Program estimate that the birthrate of 44-45 per thousand which prevailed until 1974 fell to 40.8 in 1975. They explain that the Mexican Institute of Social Security alone has thus far inserted over 2000 loops, prescribed pills for close to 6000 patients, and sterilized nearly 2000 men and women.


LAMBERT

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 JAN 25 AM 10:02

RECEIVED January 24, 1977
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman *ENT*

Attached is the latest cable on the US/Mexican Relations.

Attachment: Mexico 804

cc: Governor Wallich

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EO 11652 : GDS
TAGS : PFOR US MX
SUBJ : US/MEXICAN RELATIONS

SUMMARY : SUBSECRETARY OF FOREIGN AFFAIRS, LIC JOSE JUAN DE OLLOQUI, MET WITH THE MEMBERS OF THE FSI SENIOR SEMINAR ON JANUARY 17, TO PROVIDE AN OVERVIEW OF US/MEXICAN RELATIONS. DEOLLOQUI SPOKE EXTEMPORANEOUSLY, INFORMALLY AND OFF-THE-RECORD FOR NEARLY FORTY-FIVE MINUTES AND ANSWERED QUESTIONS. SUMMARY FOLLOWS. END SUMMARY.

1. HE BEGAN BY NOTING THAT MEXICO WAS ENCOURAGED BY RECENT INDICATORS THAT THE US ECONOMY IS STRENGTHENING, PARTICULARLY AS REFLECTED IN A LOWER RATE OF INFLATION AND DECREASED UNEMPLOYMENT. NOTING THAT NEW MEXICAN AND US ADMINISTRATIONS ARE ASSUMING POWER NEARLY SIMULTANEOUSLY, HE EMPHASIZED THAT NOW IS THE TIME FOR A NEW START IN DEVELOPING CLOSER POLITICAL AND ECONOMIC TIES BETWEEN THE US AND MEXICO. AS A CLOSE NEIGHBOR, DEVELOPMENTS IN THE US HAVE AN IMPORTANT IMPACT ON MEXICO. FOR PRAGMATIC REASONS, THEREFORE, MEXICO

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CONSIDERS IT IMPORTANT TO MAINTAIN AND STRENGTHEN ITS RELATIONS WITH THE US. ALONG WITH CANADA, HE SAID, MEXICO "BELONGS TO NORTH AMERICA." HE IMPLIED THAT THIS REALITY SHOULD BE REFLECTED IN SOME FORM OF CLOSER UNION OR RELATIONSHIP BETWEEN THE US AND ITS CLOSEST NEIGHBORS. MEXICO AND CANADA, AS BORDERING COUNTRIES, HAVE COMMON INTERESTS AND CONCERNS IN DEALING WITH THE US. AS A RESULT, DE OLLOQUI INDICATED, IT WOULD BE TO THE BENEFIT OF ALL THREE COUNTRIES TO DEVELOP A TIGHTER RELATIONSHIP IN THE FUTURE, RECOGNIZING, OF COURSE, THAT MEXICO IS ALSO A LATIN AMERICAN COUNTRY AND A MEMBER OF THE THIRD WORLD.

2. IN ITS FOREIGN RELATIONS DE OLLOQUI SAID MEXICO SHOULD TAKE ITS ATLANTIC POSITION MORE SERIOUSLY. ONE OF OUR COASTS OVERLOOKS THE CARIBBEAN WHICH IS AN IMPORTANT US SECURITY BELT, HE SAID, MENTIONING PUERTO RICO AND THE CANAL ZONE. SINCE MANY OF THE NEWLY INDEPENDENT ENGLISH-SPEAKING NATIONS HAVE NOT YET FOUND THEIR PLACE IN THE HEMISPHERE, MEXICO CAN EXERT A POSITIVE INFLUENCE IN THIS AREA. LOOKING ALSO TOWARD ITS RELATIONS WITH THE PACIFIC AREA, MEXICO IS PARTICULARLY INTERESTED IN MAINTAINING CLOSE TIES WITH THE PHILIPPINES, JAPAN AND INDIA. IN THE WESTERN HEMISPHERE, MEXICO UNDER THE NEW ADMINISTRATION OF LOPOZ PORTILLO, WILL PLACE INCREASING EMPHASIS ON STRENGTHENING TIES WITH THE OTHER NATIONS OF LATIN AMERICA. (NOTE : DE OLLOQUI DID NOT INDICATE HOW MEXICO WOULD RECONCILE SOME FORM OF SPECIAL RELATIONSHIP WITH THE US AND CANADA WITH ITS DESIRE TO DEVELOP CLOSER TIES WITH LATIN AMERICA. OTHER MEXICAN CONTACTS, HOWEVER, HAVE SUGGESTED IN RECENT DAYS THAT MEXICO, BECAUSE OF ITS UNIQUE GEOGRAPHIC AND ECONOMIC TIES WITH THE US, COULD PLAY AN IMPORTANT POLITICAL ROLE AS A MEDIATOR AND INTERPRETER BETWEEN THE USG AND THE REST OF THE HEMISPHERE.) DE OLLOQUI OBSERVED THAT MEXICO DURING THE LAST SIX YEARS HAS DOUBLED ITS

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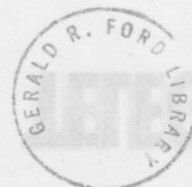
DIPLOMATIC RELATIONS THROUGHOUT THE WORLD AND PURSUED A MORE ACTIVE FOREIGN POLICY. HE FELT THIS WAS A POSITIVE DEVELOPMENT AND DID NOT SEE ANY CONTRADICTION BETWEEN THIS LARGER WORLD ROLE AND MEXICO'S DESIRE FOR CLOSER RELATIONS WITH THE US.

3. DE OLLOQUI EXPRESSED CONFIDENCE THAT THE POLITICAL AND ECONOMIC FUTURE OF MEXICO, NOTWITHSTANDING ITS CURRENT FINANCIAL PROBLEMS, IS BRIGHT. EMPHASIZING THAT THE COUNTRY IS POLITICALLY STABLE, HE EXPRESSED HOPE THAT THE GOVERNMENT WOULD BE SUCCESSFUL IN EMERGING FROM ITS PRESENT ECONOMIC PLIGHT BY CONTROLLING INFLATION THROUGH STRICTER CONTROL OF EXPENDITURES, INCREASING ITS EXPORTS TO THE US, AND ATTRACTING MORE US TOURISM.

4. DE OLLOQUI WAS QUITE CONCERNED AT WHAT HE DESCRIBED AS THE DISTORTED COVERAGE OF MEXICO IN THE US PRESS AND SPECIFICALLY CITED THE SENSATIONALIST TREATMENT OF LAST NOVEMBER'S COUP RUMORS AS AN EXAMPLE. HE MENTIONED THE DECLINE IN TOURISM AS A PARTICULAR CONCERN ATTRIBUTABLE IN LARGE PART TO UNFAIR PRESS PUBLICITY. INDEED, HE WENT EVEN FURTHER, SUGGESTING THAT THE SEPT. 1 DEVALUATION WAS LARGELY DUE TO THE ADVERSE PSYCHOLOGICAL IMPACT OF A SINGLE US NEWSPAPER REPORT (I.E. THE WALL STREET JOURNAL) AND NEGLECTING TO MENTION THE UNDERLYING FINANCIAL FACTORS.

5. REGARDING TOURISM HE PROFESSED ANNOYANCE AND CONCERN AT THE STATE DEPARTMENT'S DECEMBER ACTION IN RELEASING, ALLEGEDLY WITHOUT CONSULTATION, A STATEMENT TO TOURISTS ABOUT THE DANGERS OF TRAVELING IN MEXICO. (HE DID NOT MENTION THAT STATEMENT DEALT ONLY WITH SINALOA.) HE ALSO EXPRESSED CONCERN THAT MEXICAN EFFORTS TO INCREASE EXPORTS MIGHT PROVOKE US CHARGES THAT MEXICO IS DUMPING INTO THE US MARKET. IN A MORE POSITIVE NOTE, HE EXPRESSED OPTIMISM THAT MEXICO HAS NEARLY

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ALL THE ECONOMIC RESOURCES REQUIRED FOR DEVELOPMENT. FOR
EXAMPLE, HE SAID, OIL IS NOT A LIMITING FACTOR AND
CONTRIBUTES IMPORTANTLY TO MEXICO'S ECONOMIC GROWTH.
HE SAID MEXICO HAS NOTHING TO GAIN FROM BECOMING A
MEMBER OF OPEC, SINCE IT CURRENTLY DERIVES ALL THE
BENEFITS WITHOUT ANY OF THE LIABILITIES OF MEMBERSHIP.

HE MENTIONED THE UNDERSTANDING CONCERNING
MEXICO'S (I.E. THE MEXICAN GOVERNMENT) AND NEGOTIATING
POSITIONS REGARDING THE ISSUE OF A SINGLE OR MEMBERSHIP
IN THE OPEC. HE SAID THAT THE GOVERNMENT OF MEXICO
WAS NOT INTERESTED IN JOINING OPEC AT THE
PRESENT TIME. HE SAID THAT THE GOVERNMENT OF MEXICO
WAS CONCERNED WITH THE ECONOMIC SITUATION IN THE
COUNTRY AND THE NEED TO ATTRACTION INVESTMENT
IN THE COUNTRY. HE SAID THAT THE GOVERNMENT OF MEXICO
WAS NOT INTERESTED IN JOINING OPEC AT THE
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COUNTRY AND THE NEED TO ATTRACTION INVESTMENT
IN THE COUNTRY.

HE SAID THAT THE GOVERNMENT OF MEXICO
WAS NOT INTERESTED IN JOINING OPEC AT THE
PRESENT TIME. HE SAID THAT THE GOVERNMENT OF MEXICO
WAS CONCERNED WITH THE ECONOMIC SITUATION IN THE
COUNTRY AND THE NEED TO ATTRACTION INVESTMENT
IN THE COUNTRY.

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OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 SCA-01 SCS-03
DEAE-00 SNM-02 FEA-01 INT-05 DES-06 STR-04 AGRE-00
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R 212231Z JAN 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9837
INFO ALL US CONSULATES IN MEXICO BY POUCH
AMEMBASSY OTTAWA

~~CONFIDENTIAL~~ SECTION 2 OF 2 MEXICO 0804

6. COMMENTING ON US POLICY TOWARD LATIN AMERICA UNDER THE CARTER ADMINISTRATION, DE OLLOQUI EXPRESSED THE HOPE THAT THE USG WOULD REFRAIN FROM FORMULATING NEW SLOGANS WITHOUT MEANING AND ADOPT A MORE OPEN AND FRANK RELATIONSHIP TOWARD MEXICO, WHICH IS THE US'S FOURTH LARGEST MARKET. HE SAID THAT THERE IS A FEELING IN MEXICO THAT THE US TAKES IT FOR GRANTED. GIVEN THEIR GEOGRAPHIC PROXIMITY AND THE IMPORTANT ECONOMIC TIES BETWEEN BOTH COUNTRIES, THIS SHOULD NOT BE THE CASE. MEXICO IS PARTICULARLY CONCERNED ABOUT ITS "THREE BILLION DOLLAR TRADE DEFICIT WITH THE US". AND BELIEVES THAT THE USG MUST DO SOMETHING TO CLOSE THE GAP. IN THIS CONTEXT, HE AGAIN CITED THE NEED FOR GREATER ACCESS TO US MARKETS AND FEWER TRADE RESTRICTIONS ON MEXICAN EXPORTS.

7. TURNING TO THE ISSUE OF MIGRANT WORKERS, DE OLLOQUI SAID THAT SERIOUS ECONOMIC PROBLEMS IN MEXICO CAN ONLY AGGRAVATE THE SITUATION. MEXICO, HAVING IDENTIFIED THE AREAS OF PRINCIPAL OUTWARD MIGRATION, NEEDS TO DEVELOP WAYS TO INVEST IN AGRO-INDUSTRIES THAT WILL PROVIDE



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GREATER EMPLOYMENT AND REDUCE THE INCENTIVE FOR SUCH MIGRATION. DE OLLOQUI, HOWEVER, DISPUTED THE ATTITUDE OF THOSE IN THE US WHO SEE MEXICAN MIGRATION TO THE US AS A NEGATIVE FACTOR. HE CLAIMED THAT THE US ECONOMY IN THE SOUTHWEST NEEDS MIGRATORY WORKERS WHO ARE WILLING TO TAKE LOWER PAYING JOBS. HE DENIED THAT THESE WORKERS CONSTITUTE A SERIOUS BURDEN ON US WELFARE SERVICES OR THE ECONOMY. INDEED, HE CLAIMED THAT THEY HELP PUT MARGINAL LANDS IN PRODUCTION AND CONTRIBUTE TO THE US SERVICE INDUSTRY. IN SUM, HE URGED THAT THE US REFRAIN FROM ANY STEPS THAT MIGHT RESULT IN A MASSIVE DEPORTATION OF MEXICAN WORKERS.

8. IN A RELATED COMMENT, DE OLLOQUI EXPRESSED THE HOPE THAT THE US WOULD NOT TAKE ANY MEASURES THAT WOULD PROVE HARMFUL TO BORDER INDUSTRIES IN MEXICO BECAUSE THE ECONOMIC IMPACT OF CLOSURE COULD INDIRECTLY LEAD TO A LOSS OF SOME 35,000 JOBS ON THE US SIDE OF THE BORDER (PRESUMABLY DUE TO A REDUCTION IN PURCHASE OF US GOODS BY MEXICAN WORKERS).

9. DE OLLOQUI SAID THAT MEXICO WELCOMES FOREIGN, PARTICULARLY US, INVESTMENT UNDER REASONABLE RULES, ADDING THAT IN CONTRAST TO OTHER COUNTRIES MEXICO DOES NOT CHANGE THE RULES OF THE GAME AND INDEED HAS BEEN QUITE FLEXIBLE IN THE APPLICATION OF THESE RULES TO MAINTAIN NECESSARY INVESTMENT.

10. IN SUMMARY, DE OLLOQUI SAID THAT THE USG COULD PLAY AN IMPORTANT ROLE IN STRENGTHENING RELATIONS WITH MEXICO BY (A) HELPING TO CORRECT THE CURRENT TRADE IMBALANCE, (B) FACILITATING MEXICO'S ACCESS TO FINANCIAL MARKETS (HE SPECIFICALLY CITED A FLEXIBLE US ATTITUDE IN THE IDB AND OTHER INTERNATIONAL LENDING ORGANIZATIONS, (C) AVOIDING MEASURES THAT WOULD HARM BORDER INDUSTRIES, AND (D) MAKING GREATER EFFORTS TO SEE

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THAT THE US PRESS HAD A BETTER INFORMED AND OBJECTIVE ATTITUDE TOWARD DEVELOPMENTS IN MEXICO. WHILE OUR INTERESTS DO NOT ALWAYS COINCIDE, DE OLLOQUI SAID, THE US AND MEXICO ARE ALLIES ON BASIC ISSUES AND MUST HAVE A BETTER RELATIONSHIP.

11. COMMENT:

WHILE DEOLLOQUI SPOKE PERSONALLY AND INFORMALLY, IT IS PROBABLE THAT HIS GENERAL VIEWS REFLECT OFFICIAL GOM THINKING WHICH IN ONE FORM OR ANOTHER MAY SURFACE DURING PRESIDENT LOPEZ PORTILLO'S ANTICIPATED VISIT TO WASHINGTON. MOST OF THE BASIC THEMES TOUCHED UPON BY DE OLLOQUI WERE PREDICTABLE AND CONSISTENT WITH THOSE EXPRESSED BY OTHER GOM OFFICIALS OR THE PRESS.

12. NOTEWORTHY AND INTRIGUING, HOWEVER, WAS HIS EARLY AND POINTED REFERENCE TO SOME FORM OF SPECIAL BOND OR RELATIONSHIP BETWEEN THE UNITED STATES AND ITS TWO NEIGHBORS -- MEXICO AND CANADA. IT IS DIFFICULT TO FATHOM WHAT DE OLLOQUI HAS IN MIND. THE CANADIAN DCM RALPH BRANSCOMBE (PROTECT SOURCE) SUBSEQUENTLY CONFIRMED THAT DE OLLOQUI HAD SURFACED THE SAME VAGUE CONCEPT OF A NORTH AMERICAN UNION DURING A RECENT MEETING HE REQUESTED WITH CANADIAN AMBASSADOR LANGLEY. THE CANADIANS, SURPRISED BY THE MEXICAN APPROACH, ARE BAFFLED BY WHAT KIND OF INTERPRETATION THEY SHOULD GIVE IT IN THEIR REPORTING TO OTTAWA. WE WILL BE DISCUSSING THE QUESTION WITH THEM FURTHER. AT THE AMBASSADOR'S JANUARY 17 RECEPTION FOR THE SENIOR SEMINAR, FONSEC AMBASSADOR GONZALEZ DE LEON INDICATED THAT THE CONCEPT OF A SPECIAL RELATIONSHIP BETWEEN THE US AND MEXICO/CANADA DATES BACK TO THE EARLY 50'S AND COMMENTED THAT IF PACKAGED PROPERLY, IT COULD BE REVIVED AND MADE POLITICALLY ACCEPTABLE IN MEXICO.

13. AT THIS POINT WE ARE NOT IN A POSITION TO JUDGE

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WHAT, IF ANYTHING, IS BEHIND DE OLLOQUI'S INITIATIVE IN RAISING THE IDEA OF A NORTH AMERICAN UNION. IT MAY BE, HOWEVER, THAT MEXICO VIEWS THIS APPROACH AS A POSSIBLE POLITICAL BASIS FOR REQUESTING AND JUSTIFYING SPECIAL US ECONOMIC TREATMENT FOR MEXICO, PARTICULARLY IN THE AREA OF EXPORTS. WHATEVER MAY BE BEHIND DE OLLOQUI'S REMARKS, THE FACT THAT HE RAISED THE POSSIBILITY OF A SPECIAL RELATIONSHIP CERTAINLY INDICATES THE SHIFT IN MEXICAN OFFICIAL THINKING WHICH HAS OCCURRED SINCE FORMER PRESIDENT ECHEVERRIA LEFT OFFICE.

THOMPSON

REMARKS BY OTHER GOV OFFICIALS ON THE SUBJECT OF ECONOMIC TREATMENT AND COOPERATION WITH THE NORTH AMERICAN UNION. THE BASIC THEMES TOUCHED UPON BY GOV PRESIDENT FOLLOWS: GOV OFFICIALS INDICATED THAT IN SOME THINKING WHICH IN ONE FORM OR ANOTHER HAS SURVIVED IN THE GOVERNMENT THAT HIS GOVERNMENT ALIENS BELIEVE OFFICIAL WHITE GOVERNMENT SHOULD PERSONALITY AND INADAPTATION.

IT'S CONSENT:

HAVE A BELIEF NEGOTIATION. THE US AND MEXICO THE AGREES ON BASIC ISSUES AND MOST INTERESTS DO NOT NEARLY COINCIDE. DE OLLOQUIE SAID WILLING TO FIND COOPERATION IN MEXICO. WHILE ONE INT. THE US AGREES AND A BELIEF INCREASED AND OBJECTIVE

PAGE 02

MEXICO 00804 02 OF 02 212334Z

CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 JAN 26 PM 5:06

RECEIVED January 26, 1977
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman *EMI*

Attached are the latest cables on Mexico.

Attachment: Mexico 874
Mexico A-34

cc: Governor Wallich

Defense classification of this document is due to the inclusion of U.S. Government information officially classified under Executive Order 10501 which provides that "A document... shall bear a classification at least as high as that of its highest classified component."





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Mexico
TELEGRAM

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PAGE 01
ACTION ARA-10

MEXICO 00874 251821Z

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-08 INR-07 LAB-04
NSAE-00 SIL-01 TRSE-00 ONB-01 FRB-03 AID-05 XMB-02
PRS-01 PA-01 USIA-06 /050 W

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R 251724Z JAN 77
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9879

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PLEASE RETURN TO
INTERNATIONAL INFORMATION CENTER

E.O. 11652: N/A
TAGS: ELAB, EGEN, MX
SUBJ: JLP INAUGURATES WORKERS' BANK AND HAILS LABOR/MANAGEMENT
COOPERATION

1. PRESIDENT LOPEZ PORTILLO OFFICIALLY INAUGURATED THE WORKERS' BANK (BANCO OBRERO) IN A LARGE CEREMONY HELD ON THE MORNING OF JAN 21. GOM AUTHORIZATION OF THE BANK FULFILLS A JLP DECEMBER 1 INAUGURAL SPEECH PROMISE AND TWENTY-YEAR GOAL OF ORGANIZED LABOR. THE BANK WILL BE AN INSTITUTION OF DEPOSIT, SAVINGS AND LOAN AVAILABLE FOR USE OF ALL WORKERS WHETHER OR NOT ORGANIZED. CTM LEADERS CLAIM THAT INITIAL CAPITAL OF 100 MILLION PESOS HAS BEEN 50 TO 60 PERCENT SUBSCRIBED "EXCLUSIVELY FROM MAJOR MEXICAN UNIONS" AND THAT THERE IS NO GOM OR PRIVATE SECTOR PARTICIPATION. GOM AUTHORIZATION INCLUDES SUPERVISION AND INSPECTION BY THE NATIONAL COMMISSION OF BANKING AND INSURANCE.

2. JLP USED THE INAUGURATION AS A FORUM FOR PRESENTING A NEW DECREE AUTHORIZING THE SECRETARY OF COMMERCE TO NEGOTIATE WITH INDUSTRY FOR THE PRODUCTION OF 90 BASIC COMMODITIES AT LOW PRICES (SEPTEL) AND FOR FAILING WHAT HE TERMED A "SOCIAL PACT" WHICH IF SUCCESSFUL WOULD "CONTROL THE ECONOMIC DISORDER (THAT EXISTS) NOT ONLY IN MEXICO."



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PAGE 02

MEXICO 00874 251821Z

AFTER PRAISING ORGANIZED LABOR FOR ITS RESPONSIBLE ROLE IN REFRAINING FROM DEMANDS FOR INFLATIONARY WAGE INCREASES, AND ITS HISTORIC CONTRIBUTIONS TO THE COUNTRY, JLP ANNOUNCED THAT "WE NOW HAVE A FIRST AND BEAUTIFUL (HERMOSA) RESPONSE FROM THE PRIVATE SECTOR. COMMERCIAL AND INDUSTRIAL ESTABLISHMENT HAVE OFFERED US A POPULAR ALLIANCE FOR PRODUCTION AND DISTRIBUTION."

3. COMMENT: WHILE JLP SPOKE EFFUSIVELY OF THE POPULAR ALLIANCE AND THE "SOCIAL PACT" AS IF BOTH LABOR AND THE PRIVATE SECTOR HAD MADE MAJOR NEW COMMITMENTS, (IN DECEMBER THE GOM NEGOTIATED TEN INVESTMENT AGREEMENTS WITH THE PRIVATE SECTOR AND LABOR CONSENTED TO ONLY 9-10 PERCENT NATIONAL MINIMUM WAGE INCREASES, BOTH OF WHICH FELL UNDER THE "POPULAR ALLIANCE" RUBRIC), THERE IS NOTHING TANGIBLE YET. WE BELIEVE JOP WAS SIMPLY JAWBONING ON THIS OCCASION, HOPING TO KEEP ALIVE A FRAGILE SPIRIT OF COOPERATION WHICH BOTH LABOR AND MANAGEMENT HAVE SHOWN. A PROBLEM IS THAT LABOR'S FOREBEARANCE ON WAGES IS MORE VISIBLE AND DEMONSTRABLE THAN IS MANAGEMENT SUCCESS AT CONTROLLING PRICES -- HENCE THE FANFARE SURROUNDING THE WORKERS' BANK (TO WHICH GOM APPARENTLY IS MAKING NO FINANCIAL CONTRIBUTION) THE PRESIDENTIAL PRAISE OF LABOR'S BEHAVIOR, AND JLP'S ATTEMPTS TO SHOW THAT MANAGEMENT TOO IS ACTING RESPONSIBLY.

JOVA

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INFO:

US DEPT. OF STATE, WASHDC
US DEPT. OF COMMERCE, WASHDC
AMEMBASSY, MEXICO
AMCONSUL, GUADALAJARA

LA-34
FADRC/DALWC
SS
77 JAN -3 PM 2:02
DEPARTMENT OF STATE

PLEASE RETURN TO

INTERNATIONAL INFORMATION CENTER

FROM

AMCONSUL, MONTERREY

DATE: December 21, 1976

E.O. 11652: NA

TAGS:

ECON, PINT, MX

SUBJECT:

BUSINESSMEN'S ROUNDTABLE REPORT, DECEMBER, 1976

REF

MONTERREY'S A-31 OF NOVEMBER 12, 1976

EB

S U M M A R Y

SUGGESTED DISTRIBUTION

The first two weeks of the López Portillo administration received a high rating from the nine local executives who participated in the latest in a series of Businessmen's Roundtable discussions, held at the Monterrey Consulate General on December 16. Government agricultural policies, removal of tax incentives for exports, and the Government's record of payment were, however, of concern. Most executives saw 1977 as being an austere year, with sharply higher costs for labor and raw materials, a mixed sales picture, price controls, and dangers of severe inflation identified as their major worries. Prospects for retailers and producers of consumer goods were, nevertheless, reported as generally bright. The Roundtable participants criticized the recent general 23% wage increase, hoped for moderation in the minimum wage revisions, recommended a strong role for company executives in labor relations, and offered examples of the infiltration of their workforces by outsiders.

Consul General Lambert began this month's Roundtable by offering an overview of US/Mexican relations during the Carter/López Portillo Presidencies. Each of the businessmen then made his presentation in turn.

POST ROUTING

TO:	Action	Info.	Initials
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Action Taken:

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FORM 10-64 DS-323

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Drafted by:

ECON/COMM:THCarter/RLGlass:mlg

Drafting Date:

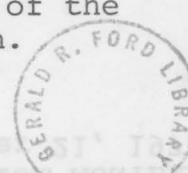
12/20/76

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13/30/76
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Page 2 of 8
A-34 from MONTERREY
December 21, 1976

REACTION TO LOPEZ PORTILLO

Monterrey Roundtable participants were generally optimistic about President José López Portillo, basing their hopes on his inaugural address and his cabinet-level appointments. The senior executive of a firm which manufactures cranes said that he was impressed by the "sincerity and directness" of the inaugural speech and was gratified by its lack of "rhetoric". A steel pipe manufacturer said that he admired the "simplicity" of the speech and believed that the President wrote most of the text himself. He predicted that López Portillo would not move sharply to the right but would at least stick closer to the center. He was also encouraged by reports that López Portillo had privately consulted with former Presidents Díaz Ordaz and Alemán just prior to the inauguration.

The cabinet nominations were generally well received. The crane manufacturer said that all but one of the appointments were "worthy of confidence". However, the appointment of Muñoz Ledo as Secretary of Education puzzled him since he feared the impact of this "leftist" on Mexican youth. The steel pipe manufacturer interjected that moving Muñoz Ledo out of the Presidency of the Partido Revolucionario Institucional (PRI) tended to "freeze him out of power", especially since his two strong undersecretaries in the Education Secretariat would exert a restraining influence. Moreover, the appointment of Muñoz Ledo was a political necessity to placate Mexican leftists. This appointment may also help maintain peace among Mexican leftists and, if not, give López Portillo a fine excuse to dismiss Muñoz Ledo.

One large and important unknown is López Portillo's approach to wage policy. Roundtable participants are anxiously awaiting the Government of Mexico's January, 1977, minimum wage revision. There was a general concurrence that 1976 wage settlements had outstripped price inflation. An automobile parts manufacturer said that he expected an eight to twelve percent minimum wage hike in January and felt that anything over ten percent would be inflationary and could lead to a further devaluation. A ceramics manufacturer opined that if López Portillo does not hold the wage increase to under twelve percent, his factory will be seriously hurt. A manufacturer of stainless steel tubing volunteered that this would be a "good time for the GOM to squelch wage inflation" through a merely symbolic wage hike, certainly not more than eight to ten percent. The manufacturer of steel pipe said that he had understood that the GOM and the International Monetary Fund had agreed to a post-devaluation wage hike of only 15%,

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which was violated by the Government's 23% wage settlement. He had also heard rumors that the GOM would soon start a policy of paying salary increases in bonds to minimize their inflationary impact. Press reports of a 38% increase in the 1977 Federal Budget also inspired several observations. The steel pipe manufacturer noted that the budgetary discipline was so lax in the previous administration that Petróleos Mexicanos (PEMEX) exceeded its budget ceiling midway through the year. He was confident that López Portillo will "enforce the budget". A manufacturer of ceramics feared a big increase in GOM spending and hoped that López Portillo would "impose budget discipline".

The steel pipe manufacturer was optimistic about agreements being formulated between the Government of Mexico and the country's private sector. The agreements, he said, will include provisions to stop the Government from duplicating the efforts of the private sector. He has also heard that chambers of commerce are pressuring the new President to drop the retail sales of CONASUPO, the public sector purchaser and distributor of certain basic foodstuffs.

The new Administration's policy on agriculture was of acute concern to the executive from an edible oils firm. Expropriations and land invasions by squatters are threatening Mexico's bread basket and will force the GOM to import large and costly quantities of foodstuffs. Besides the loss of production during the current crop year, the executive also expressed longer term fears that the land's productivity will be permanently damaged. Although 1977 will be a poor year for agriculture, he nevertheless is generally optimistic about the López Portillo administration over the longer run. The Government is an unreliable customer according to the pipe manufacturer, whose company faced massive order cuts when PEMEX exceeded its budget ceiling in July, 1976. A pump manufacturer added that his firm had also faced sudden order cancellations from PEMEX. He was also upset when the GOM's Secretariat of Water Resources suddenly cancelled a sizable pump order so that it could divert the funds to one of President Echeverría's pet projects. One participant added that an order for two hundred taxis by Fomento Metropolitano (FOMET) in Monterrey was cancelled after the distributor had purchased the vehicles. According to him, the increased criticism of Nuevo León Governor Zorrilla Martínez by the newspaper El Diario is due at least in part to this action, since the same organization controls both the automobile distributorship involved and the newspaper.

A lamp manufacturer who recently arrived in Mexico had the most pessimistic view of the country's future. His pessimism was

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based mainly on the cancellation of export subsidies, GOM patent infringements and the new Patent and Trademark Law, and the requirements for greater Mexican content in manufactures. He conceded that Mexico's wage rates are generally low enough to permit exporting, but he feared that such restrictions and "harassment" would discourage export activity.

BUSINESS CONDITIONS

Although there was some bright spots, the general business outlook for 1977 was described as being somewhat pessimistic, with cash flow problems, the inability to "pass through" higher materials and wage costs because of Mexican Government price controls and competitive market conditions, and financial and wage uncertainties contributing to the pessimism. Several company representatives stated that their firms were in for a year of belt-tightening and austerity. Over the longer term there was considerable optimism. Many participants admitted that the peso devaluations and resultant wage and supplies increases have had a negative effect on their prospects for 1977.

While the crane manufacturing company has enough of a backlog to keep the plant operating throughout 1977, most of the firm's orders were received before September 1. The company had quoted fixed prices for these contracts and consequently has been hard hit by escalating costs. The executive admitted that the company's accounts payable had lengthened and that henceforth the firm would quote primarily on a "cost at time of delivery" basis. The manufacturer of steel pipe stated that his firm is now paying 54% more for the steel used in the majority of his firm's operations. A manufacturer of ceramic tile now faces significantly higher prices for the raw materials it must import from the United States. The manager of the firm making lightbulbs bemoaned the sharply higher prices the firm has been required to pay for its imports of tungsten wire.

The manager of a company making automobile parts noted a sharpening dichotomy in his 1977 sales picture. The 30-40% of his business represented by sales of original equipment to automobile assemblers has suffered greatly because of the virtual stagnation in sales of 1977 model cars. Car prices have increased more than 50% for the 1977 models. Chevrolet Novas rose from some eighty thousand to one hundred and thirty thousand pesos, for example, and Ford LTDs rose from one hundred and forty thousand to over a quarter of a million pesos in price. The clampdown on the availability of credit has also hurt his business. According to him, automobile production has been drastically reduced, and several automakers are unwilling to fix future production schedules. In contrast,

the replacement parts component of the firm's business is experiencing higher sales, primarily because more and more carowners are having their existing vehicles repaired. For the autoparts firm, the added demand for its replacement part business has cushioned somewhat the adverse effects of the devaluations.

Besides the improved market prospects for automobile replacement parts, the tile company executive reports that his business is currently "booming" and that his plant is running at 100% of production capacity to meet current demand and reduce a three month backlog. The executive is guardedly optimistic, citing reports that the Carter Administration will cause a "building boom" in the United States, the firm's principal export market. The executive stated that nearly forty percent of the firm's output is currently being exported, a factor which has in part compensated for rising costs for imported raw materials. To maintain these exports, the executive admitted that his firm has been offering an eight percent discount for its exports (quoted in dollar terms) to the US. The executive criticized the GOM's removal of tax incentives to export, stating that, for his firm to remain competitive, the incentives would have to be reinstated or the peso would have to depreciate further vis a vis the dollar.

Several participants reported the markedly better sales and profit picture in the retail sector of the Mexican economy. While formerly heavy purchases of consumer goods and foodstuffs by Mexicans in the United States have dropped significantly, domestic wage hikes and more recently the sizable Christmas bonuses paid to workers have stimulated domestic sales. A cutlery manufacturing firm's executive admits that his sales (in terms of number of pieces) have risen 15% in the past six months. Again, the total picture for the firm is mixed, however, since the same company also manufactures industrial springs. The company's sales of springs to autoparts manufacturers have fallen sharply. In contrast, sales of springs to producers of consumer goods have remained good. Another participant mentioned that there now existed waiting lines for popular consumer durables such as washing machines. A third businessman commented that, with rapidly rising wages at the lower income levels, there was occurring a marked shift in income distribution from the middle class and toward the working class.

From the businessmen's comments, it was clear that no consensus existed as to when the Government of Mexico might reinstitute a

fixed parity for the peso and, if so, its rate of exchange. One businessman predicted that the current rate of some twenty pesos per dollar would persist for several months. Another described the current situation as a "manipulated float" and saw a return to a fixed parity within four to six months. On the other hand, the cutlery and spring manufacturer is estimating that the peso will fall to the thirty to one level by yearend 1977. Most of the executives believed that the soon to be announced minimum wage levels for 1977 would be a good barometer for the movement of the peso.

LABOR RELATIONS

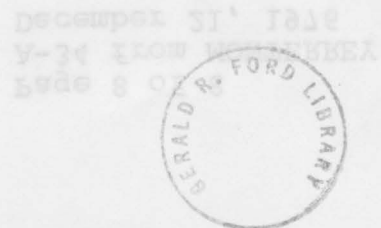
General criticism of the 23% wage hike "recommended" last September, hope that the minimum wage increases to be announced for January would be moderate, and concern over workforce infiltration were the main themes discussed by the Roundtable participants. There was widespread agreement that the 23% wage increase decreed in September was excessive and unjustified. The manager of a company producing cranes for the steel industry stated that his workforce had received a 17% wage boost in July, 1976, and opined that a six to eight percent increase in September would have fully compensated for the increase in the cost of living between July and late September. The 23% increase came at a particularly bad time, in his view, especially since companies now have to use a much higher base in computing the Christmas bonuses of workers. The chief executive of a company producing food products stated that his workforce had received an 18% wage increase in August, 1976, but nevertheless received the full 23% less than a month later. In the case of the company producing ceramic tile, salary revision negotiations were in progress when the 23% decree was announced. A late September agreement to raise wages by 30% included the 23% recommendation. Besides being critical of the 23% wage increase, the manager of the pump producing company also criticized the recent shift from biennial to annual salary revision negotiations.

The food processing executive raised the point that too often plant managers and executives shunned involvement in labor contact negotiations and instead relied on labor relations lawyers. He was critical of this practice, opining that lawyers tend to follow the "path of least resistance" in many cases and generally had less incentive than plant managers to reach a settlement favorable to the company. The executive from the pipemaking company agreed, stating that many outside lawyers would accept a "bad settlement rather than a good fight." He offered the example of Fundidora Monterrey which, according to him, has for more than twenty years not given adequate management attention to contract revision negotiations. He fears that, for the Fundidora, the process may be irreversible.

Various Roundtable participants related their experiences regarding actual or attempted infiltration of their workforces by outside agitators. The manager of a company making pumps stated that a strike by his "white" (independent) union against the company in March, 1976, was political rather than economic in nature and was instigated by outsiders from the Frente Auténtico de Trabajadores and the Mexican Communist Party. He was particularly critical of interference by radical members of Section 68 of the Miners' Union, the most politically-active of the unions representing workers at Fundidora Monterrey. These groups also sought to intertwine the cause of the strikers with those of posesionarios and students, organizing several joint demonstrations to pressure the pumpmaking company. According to the executive, the state labor conciliation board supported his efforts to settle the strike and combat the infiltration. After settlement of the two week strike, the company fired twenty of its two hundred forty workforce which it had identified as troublemakers, including several employees that had been with the company for more than ten years. Despite the reduced workforce, plant productivity subsequently rose because of the better work environment.

The executive of a company producing stainless steel products reported a similar experience. He stated that his union, affiliated with the Confederación de Trabajadores Mexicanos (CTM), was helpful in isolating and removing the troublemakers by denying them membership in the union, which was a prerequisite to employment with the company. The executive of the company producing lamps stated that his labor situation (with a CTM-affiliated union) was generally good but that he was also considering the dismissal of a small group of identified troublemakers.

A number of participants stated that their companies had laid off some portion of their workforces in recent months. The pipemaking company executive offered the most dramatic story, reporting that his workforce had dropped from 1500 to 800 since midyear, primarily because of sharply reduced orders (and a few cancelled contracts). The executive noted that his business was classified in the "construction" field, thus permitting the relatively easy hiring and firing of eventuales, or temporary workers. The majority of those laid off by the firm were in this category. Since there was no requirement to pay severance



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A-34 from MONTERREY
December 21, 1976

benefits when eventuales are dismissed, the company was able to reduce its workforce without major cost or legal challenges by its workers through the state labor arbitration panel. The executive noted that most of the plant's workers that were dismissed were able (with company assistance) to find employment elsewhere.

CASTEEL

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December 31, 1976
V-34 from MONTERREY
Page 1 of 8

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1977 JAN 31 PM 4:46

RECEIVED January 31, 1977
OFFICE OF THE CHAIRMAN

TO: Chairman Burns

FROM: Ted Truman *EMT*

Attached is the latest cable from Mexico.

Attachment: Mexico 1018

cc: Governor Wallich

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PAGE 01 MEXICO 01018 280032Z
ACTION ARA-10

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E.O. 11652: N/A

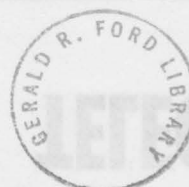
TAGS: EGEN MX

SURJ: PROGRAM TO PROVIDE 90 BASIC PRODUCTS AT LOW PRICES

REF: (A) 76 MEXICO 15646; (B) 75 MEXICO 15754;
(C) MEXICO 0874

1. SUMMARY: ON JANUARY 21, LOPEZ-PORTILLO SIGNED DECREE AUTHORIZING SECRETARY OF COMMERCE TO SIGN AGREEMENTS WITH VARIOUS INDUSTRIES TO PROVIDE 90 BASIC CONSUMPTION ARTICLES AT LOW PRICES. PRESIDENT'S COMMENTS AT SIGNING IMPLIED THIS WOULD BE A SACRIFICE BY INDUSTRY TO COMPENSATE FOR RESTRAINT IN WAGE DEMANDS. MEASURE LABELED AS A MEANS TO REDUCE PRICES. END SUMMARY.

2. THE LOPEZ-PORTILLO ADMINISTRATION IS NOW MOVING TO GET INDUSTRY TO SIGN AGREEMENTS BY WHICH THEY WILL PROVIDE 90 BASIC CONSUMPTION GOODS AT FIXED PRICES, AT BOTH WHOLESALE AND RETAIL LEVELS. PRICE OF GOODS TO BE BASED ON DIRECT AND INDIRECT COSTS AND A "REASONABLE" PROFIT TO BE DETERMINED BY NEGOTIATIONS BETWEEN



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INDUSTRY AND GOVERNMENT.

3. THE PRODUCTS COVER SOME PREPARED FOODSTUFFS, SCHOOL SUPPLIES, HYGIENIC SUPPLIES, HOUSEHOLD GOODS AND CLOTHING. THE PRODUCTS RANGE FROM TOILET PAPER TO BICYCLES TO PLASTIC SANDALS.

4. THERE WILL BE NO FISCAL INCENTIVES TO PRODUCE THESE ITEMS, BUT NECESSARY IMPORT PERMITS WILL BE GRANTED AND THE SECRETARY OF COMMERCE CAN "RECOMMEND" TO OTHER GOM AGENCIES THAT CERTAIN OTHER FACILITIES SUCH AS FINANCING BE MADE AVAILABLE. THE GOODS WILL BE DISTRIBUTED THROUGH EXISTING RETAIL OUTLETS. SECRETARY OF COMMERCE SOLANO SAID THAT THE LARGE RETAIL CHAINS HAD AGREED TO HANDLE THESE ITEMS AT LOWER PROFIT MARGIN. SMALL RETAILERS WILL BE ABLE TO BUY THE ITEMS AT A DISCOUNT.

5. SINCE THE PRODUCTS WILL BE SOLD THROUGH EXISTING RETAIL OUTLETS, ANYBODY WILL BE ABLE TO PURCHASE THE ITEMS, THOUGH THE PROGRAM IS AIMED LARGELY AT THE URBAN WORKER. THE GOM HOPES TO HAVE AT LEAST SOME OF THE ARTICLES ON STORE SHELVES WITHIN 90 DAYS.

6. THIS AGREEMENT WITH PRIVATE INDUSTRY SUPPLEMENTS THE TEN AGREEMENTS SIGNED IN MID-DECEMBER. AT THAT TIME, THERE WAS REFERENCE TO AN ELEVENTH AGREEMENT ON BASIC CONSUMER GOODS, BUT IT WAS NOT SIGNED APPARENTLY BECAUSE OF THE LARGE NUMBER OF INDUSTRIES INVOLVED. NEGOTIATIONS WITH VARIOUS INDUSTRIES WERE BEGUN BY THE LOPEZ-PORTILLO TEAM LAST SUMMER. AGREEMENT HAD BEEN REACHED ON 20 OR 30 PRODUCTS PRIOR TO THE DEVALUATION. THE NEGOTIATIONS ARE NOW GOING ON BETWEEN INDUSTRY ASSOCIATIONS AND THE GOVERNMENT.

7. WHILE THE GOVERNMENT DOES NOT EXPECT INDUSTRY TO

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MEXICO 01018 280032Z

PRODUCE THESE BASIC GOODS AT A LOSS, IT EXPECTS INDUSTRY TO MAKE MINIMAL PROFITS. IN EXCHANGE THE GOVERNMENT WILL PROBABLY INCREASE PRICE CEILINGS FOR HIGHER PRICED GOODS.

8. IT IS NOT CLEAR TO US HOW THIS MEASURE WILL REDUCE PRICES, OR HOW FLEXIBLE GOVERNMENT WILL BE IN LETTING PRICES CHANGE FOR THE 90 BASIC PRODUCTS ONCE THEY HIT THE MARKET. THUS FAR, WE HAVE NOT HEARD ANY MAJOR COMPLAINTS FROM BUSINESSMEN, IN PART BECAUSE SEVERAL TO WHOM WE HAVE SPOKEN SAY THE DISCUSSIONS ARE STILL PRELIMINARY. ONE BUSINESSMAN NOTED THAT USING COMMERCIAL RETAIL CHAINS AND KNOWN PRODUCT NAMES IS BETTER THAN BEING FORCED TO PRODUCE SPECIAL BRANDS FOR RESALE THROUGH THE GOM-OWNED CONASUPO RETAIL STORES.

9. GOM OBVIOUSLY IS ANXIOUS TO CASH IN ON ITS IMPLIED PROMISE TO LOWER PRICES. GOM OFFICIAL TOLD US THAT THE SEVEN MAJOR RETAIL CHAINS IN MEXICO WILL OFFER 35 ARTICLES AT SPECIAL PRICES BEGINNING JANUARY 31.
JOVA



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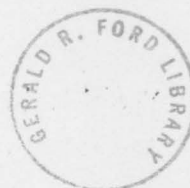
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TAGS: EGEN,EFIN, MX
SUBJECT: CURRENT ECONOMIC SITUATION
ACTION: SECSTATE WASHDC
INFO: TREASURY

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1. SUMMARY. Economic activity in Mexcio has slowed down, with output running slightly below mid-76 levels. GOM appears to be concentrating its energies on replacing the outgoing bureaucracy and effecting an administrative reform program. While JLP has publicly stated that 1977 will be an economically difficult year and that Mexico needs a new development strategy, there has not been much discernable progress in developing either a short-term or long-term economic strategy. Private sector seems to be adopting a wait and see attitude before undertaking new investments. END SUMMARY.
2. The rate of growth of industrial activity began to slow in mid-1976 in response to the Bank of Mexico's tight credit policies. The industrial production index peaked in June, and has run at lower levels through October, the latest date for which it is available. The October index is 140.7 below levels prevailing in this month in two previous years. Partial data for November is mixed with some industries showing increases in unit sales.

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3. Mexico's gross domestic output is estimated to have grown about 3% in real terms from 1975 to 1976. Most of this growth would have been in the first half of the year with total output more or less holding steady in the second half. The price deflator is estimated to have been about 20%. The preliminary Bank of Mexico data on national accounts will be available by end-February.

4. Actual price data is now available for the year 1976. The year to year increase in the CPI was 15.8%. The December to December 1976 increase was 27.2%. The increase in the WPI was more marked, 22.3% on a year to year basis and 45.9% from December to December. This reason for this is that the WPI is heavily influenced by raw material prices, most of which trade at or close to world prices.

5. Lopez Portillo has publicly stated that the first six months of 1977 will be particularly difficult and that Mexico must find a new development strategy. While he admits that economic problems are the most pressing, there is no public evidence that the government has a coherent short-term economic strategy. GOM policy makers are working on various policy options, but have not yet come to any conclusions as far as we know. JLP's first two priorities appear to have been a restoration of confidence, largely through words, and administrative reform. The latter has meant that in addition to filling positions



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to a fairly low level in the bureaucracy, new lines of command are being drawn with resultant confusion over responsibilities, information flow, etc. Administration is reportedly JLP's strong point and first love judging from the priority he has given to administrative reform. The major loser in this reform at least with respect to control over spending and trade policy appears to have been JLP's stepping stone to the Presidency, the Finance Ministry. The biggest gainers would appear to be the new Budget and Planning Ministry (ex-Presidency) and the Patrimony and Industrial Development Ministry. The significance of administrative reform in the context of this message is the impact it might have on the economic policy-making process and on the level of government expenditure.

6. The economic policy-making process in the new government is not yet clearly defined. At the present time the Minister for Budget and Planning, Carlos Tello, appears to be the preeminent, though not necessarily dominant advisor to the President. Tello's economic philosophy appears to favor acting against inflation on the supply side. Opposed to him are the financial officials from Hacienda and Banco de Mexico who want to reduce inflation by cutting back demand. Key presidential advisor Rafael Izquierdo is said to be somewhere between these two schools of thought. The President seems to lean to the former school of thought perhaps because he



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fears the political consequences that a cutback in per capita consumption and employment might have. Even as Finance Minister at the time of the U.S. recession, JLP told the Ambassador that Mexico could not afford a recession because of the lack of social welfare programs to take care of the unemployed, a theme he continues to repeat.

7. The JLP administration's first internal policy debate is likely to focus on the budget. There is pressure on him from the Bank of Mexico and Hacienda to reduce expenditures as well as to increase revenues, particularly by higher public sector prices. It is possible that the delays caused by the administrative reform will impact on the level of expenditures. Whether this will result in permanent savings or merely a brief delay in making expenditures is unknown. The outcome of this debate will be the key in determining economic developments later in the year.

8. Apart from the question of public sector spending, the GOM is faced with the problem of financing a current account deficit which is being forecast at anywhere from \$1.8 billion to \$2.6 billion. In addition to this, the public sector's short-term debt of \$4.2 billion has to be rolled over and public sector long-term debt amortization payments of \$1.7 billion have to be refinanced.



* We have heard from financial officials that the government is looking for ways to increase revenues and cut expenditures. We have not yet been able to get any more information on these matters.

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9. Mexico's financial problem is twofold and inter-related. That is, the GOM not only has to finance a substantial budget, the size of which will impact on the external accounts, but it also has to arrange, one way or another, for substantial foreign borrowing.

10. While senior GOM officials often state that Mexico cannot afford a recession, the economy is in a recession according to the informal Mexican definition, i.e., a negative per capita growth rate. Industrial activity may be lower now than it was in last October. This judgment is based on the following factors. (1) The industrial work force is probably lower now than last summer. Various businessmen have told us that they are laying off workers. (2) Public sector spending is probably down due to the reorganization of the entire public sector. We hear reports of major spending decisions being postponed. Public sector spending has been the underpinning of Mexico's economic growth since 1972. (3) Private investment was undoubtedly affected negatively by the events of last fall. The lack of ability to forecast economic developments with any certainty is affecting investment decisions. Many private businessmen say they are waiting to see specific economic measures rather than base investment decisions on moral suasion. (4) Foreign exchange transactions are reporting declining. This may indicate a continued decline in imports



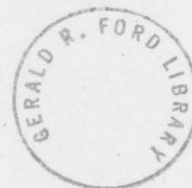
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that began last September! (5) , Peso and dollar financing is not available to Mexico's private sector, nor has it been for some months. The impact of these, plus the delayed impact of the devaluation may be hitting domestic economic activity, particularly in the private sector, harder than is generally known.

11. The picture in the agriculture sector is more difficult to discern. Output of some crops may be up whereas output of other crops may be down. It is not possible to measure the impact of the land seizures in northwest Mexico, but these were certainly not conducive to increased private sector investment in agriculture and may have a negative impact on output in that region.

12. Our judgments in the preceeding two paragraphs are extremely qualitative because of the lack of current data on which to base an analysis. However, we think the indirect signs of further economic slowdown are significant enough to report.



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13. The GOM is undoubtedly aware of these signs and the prospect of continued stagnation or even further declines in economic activity may be one of the reasons JLP could opt for a relatively high level of public sector spending even though this means more foreign financing than would otherwise be necessary.

14. The current economic slowdown is a mixed blessing. It should lead to a reduction in the current account deficit and, if there are actual budget savings, make attainment of EFF program targets somewhat more likely. On the other hand, JLP is unlikely to be satisfied with a growth rate of zero to two percent because of what he views as the political risks from reduced employment and per capita consumption.

15. Although a significant turnaround in economic activity could hardly have been expected within two months of taking office, we believe the suspected deterioration in the economic situation could have been mitigated by more positive action by the new government. In particular, while JLP has stated that this will be a difficult period, neither he nor other GOM spokesmen have laid out in any detail what the Mexican business community and public might expect in 1977. This has never been done in Mexico, but it is important in the present context because the economic policy framework that predominated for over twenty years disappeared with the devaluation.



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16. Some areas where coherent policies have not yet been developed are the following:

- A) Exchange rate policy (Fluctuations in rates generally attributed to changes in supply and demand. GOM has not said publicly that exchange rate might also be determined by such objectives as reducing the current account deficit and making manufactured exports competitive in world markets.)
- B) Interest rate policy. (Higher interest rates on peso deposits will be necessary to retain existing peso financial savings and attract more pesos into banking system.)
- C) Fiscal policy. (Ideally, some target figure for budget cuts could be announced along with a revenue increase target. The details need not be made public at this time. The intention to pursue a less inflationary policy would be reassuring to foreign bankers and to local businessmen who want financial stability.)

for all hands
more info
on extra to
D) Wage Guidance. (increase of 10% to 15% in wages of public employees and 10% to 15% in wages of private employees. Some to do more.)



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17. While JLP has prepared the country for bad economic news, he has not provided any details. The economic situation is confused and the economic climate is radically different from what it was even a year ago. Confusion complicates planning and investment. It also delays the necessary structural changes in the economy. The public does not understand GOM objectives. Without guidance, stagnation is likely to last longer than would otherwise be necessary. Further, the foreign banking community is unlikely to be as supportive as it could in the light of this uncertainty.



February 4, 1977

TO: Chairman Burns

FROM: Ted Truman

EMT
Attached is the latest cable from Mexico.

Attachment: Mexico 1104

cc: Governor Wallich

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 AGRE-00 PA-01 PRS-01 L-03 H-01 /085 W
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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 9991
INFO AMCONSUL MONTERREY POUCH

~~CONFIDENTIAL~~ MEXICO 1104

del 7/15/07

FO 11652: GDS

TAGS: EFIN

SUBJECT: NEED TO ASSURE POTENTIAL INVESTORS

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1. MEXICAN BUSINESS/BANKING COMMUNITY HOSTED LUNCH JANUARY 27 FOR BANK OF AMERICA SENIOR VP VAN LEARDEN, WHO REPORTEDLY PUT TOGETHER LAST FALL'S \$800 MILLION LOAN FOR MEXICO. AMBASSADOR WAS PRESENT. VAN LEARDEN TOLD GROUP HE THOUGHT MEXICO WOULD GET THROUGH 1977 WITHOUT SERIOUS PROBLEMS, BUT THAT HE WAS CONCERNED ABOUT 1978/79. GOM'S PRIORITY NEED NOW, WAS TO REASSURE FOREIGN AND DOMESTIC INVESTORS AND LENDERS, AS WELL AS THE IMF AND OTHER INTERNATIONAL FINANCIAL INSTITUTIONS, OF ITS SERIOUS INTENT TO OVERCOME ITS PRINCIPAL PROBLEMS, WHICH VAN LEARDEN DIVIDED INTO SHORT AND LONGER TERM.

2. HE CHARACTERIZED THE SHORT-TERM PROBLEM AS THE NEEDED TO PREVENT THE DEVELOPMENT OF A RUNAWAY CYCLE OF INFLATION SUCH AS HAD HIT CHILE AND ARGENTINA. THIS WOULD, HE SAID, REQUIRE SACRIFICE AND RESTRAINT NOW ON PART OF BOTH INDUSTRY AND LABOR. AT SAME TIME, PRICE LEVEL OF BASIC MARKET BASKET OF THE POOR COULD BE PROTECTED FROM INFLATION THROUGH APPROPRIATE ALLOCATION OF RESOURCES.

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3. IN THE LONG TERM, HE REPORTEDLY SAID MEXICO MUST CONTROL ITS POPULATION GROWTH, BRINGING NUMBER OF NEW ENTRANTS INTO JOB MARKET INTO LINE WITH JOB CREATING POSSIBILITIES OF THE ECONOMY.

4. VAN LEARDEN EXPRESSED UNDERSTANDING THAT ONLY 58 DAYS IN OFFICE WAS OBVIOUSLY INSUFFICIENT TO HAVE DEVELOPED PROGRAMS OVER A BROAD SPECTRUM; BUT OF GREATEST PRIORITY FOR GOM WAS NEED TO EXHIBIT A FAVORABLE ATTITUDE TOWARD INVESTORS, IN PARTICULAR, THE GOM SHOULD CLARIFY ITS ATTITUDE TOWARD NEW FOREIGN INVESTMENT, ESPECIALLY AS MANIFESTED IN IMPLEMENTATION OF FOREIGN INVESTMENT LAW AND PATENTS AND TRADEMARKS LAW, AND IT SHOULD ASSURE POTENTIAL INVESTORS THAT THE "RULES OF THE GAME" WILL NOT CHANGE AFTER INVESTMENTS ARE COMMITTED. GOM MIGHT ALSO DEVELOP INCENTIVES SUCH A "REASONABLE" DEPRECIATION (READ RAPID) WRITEOFF TO ATTRACT INVESTORS.

5. WE ALSO UNDERSTAND VAN LEARDEN IS BEING PRESSED TO ORGANIZE NEW LOAN TO GOM.

6. AMBASSADOR LEARNED THAT GROUP OF 40 MEXICAN BUSINESS AND BANKING LEADERS HAD LENGTHLY SESSION WITH PRESIDENT FROM WHICH THEY CAME AWAY HIGHLY ENCOURAGED THAT THE WAR BETWEEN GOM AND PRIVATE SECTOR, PARTICULARLY MONTERREY GROUP, WAS OVER. JLP EMPHASIZED THAT PRODUCTIVITY MUST BE KEY GOAL IN ALL INVESTMENT, BOTH PRIVATE AND PUBLIC, AND THAT HE WAS PARTICULARLY INTERESTED IN INCREASING RATE OF INVESTMENT IN PRIVATE SECTOR INCLUDING FOREIGN INVESTMENT.

7. IN THIS REGARD, PRESIDENTIAL ADVISOR RAFAEL IZQUIERDO RECENTLY TOLD AMBASSADOR THAT THE MONTERREY GROUP WILL SHORTLY ANNOUNCE THE INTENTION TO UNDERTAKE MAJOR INVESTMENTS IN THE AGRICULTURAL SECTOR THROUGHOUT THE COUNTRY AT INSTANCE

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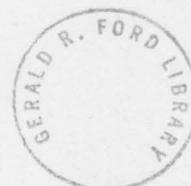
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OF THE GOVERNMENT.
.10VA



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February 7, 1977

TO: Chairman Burns

FROM: Ted Truman *ENT*

Attached are the latest cables on Mexico.

Attachments: Mexico 1251
Mexico 1306
Mexico 1414

cc: Governor Wallich

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ACTION ARA-10

MEXICO 01251 022032Z

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
PA-01 PRS-01 L-03 H-01 /085 W

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 0069

INFO TREASURY WASHDC

ALL US CONSULATES IN MEXICO VIA POUCH

~~CONFIDENTIAL~~ MEXICO 01251

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F. O. 11652: GDS

TAGS: EINV, EGEN, MX

SUBJECT: PUBLIC-PRIVATE SECTOR RELATIONS

REF: (A) MEXICO 1018; (B) 76 MEXICO 15963.

1. SUMMARY: U.S. BUSINESSMEN ARE CRITICAL OF GOM EFFORT TO PRODUCE INEXPENSIVE CONSUMER GOODS AND EVIDENCE SOME APPREHENSION OF NEW GOVERNMENT. PRESUMABLY SHARED BY BUSINESSMEN GENERALLY, THIS ISSUE, PLUS CONCERN OVER EXCESS PROFITS TAX APPEAR TO BE HINDERING TO SOME DEGREE IMPROVED RELATIONS BETWEEN THE PUBLIC AND PRIVATE SECTORS. END SUMMARY.

2. AT AMBASSADOR'S MONTHLY MEETING WITH U.S. BUSINESSMEN, LATTER COMPLAINED ABOUT THE GOM'S PROGRAM TO MARKET 90 BASIC CONSUMPTION GOODS AT LOW PRICES. (SEE REF A) GOM APPARENTLY WANTS PRIVATE INDUSTRY TO REDUCE PRICES ON EXISTING GOODS AT LOWER PRICE RANGE RATHER THAN DEVELOP NEW INEXPENSIVE MODELS. IN EXCHANGE, GOM INDICATES IT WILL REMOVE PRICE CEILINGS ON HIGHER PRICED ITEMS.



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3. ONE BUSINESSMAN WHOSE COMPANY DEPENDS ON ONE PRODUCT FOR 80 PERCENT OF ITS SALES MAINTAINED HE COULD NOT AFFORD TO LOWERE THE PRICE OF THIS ITEM. ANOTHER, A FOOD PROCESSOR, SAID HE MERELY SUBMITTED TO THE GOM HIS LIST PRICES WITH THE COMMENT THAT HIS FIRM DOES NOT GIVE DISCOUNTS. ANOTHER EXPRESSED CONCERN THAT EVEN IF COMPANIES PARTICIPATED IN THIS "VOLUNTARY" PROGRAM THE GOM MIGHT NOT REMOVE PRICE CEILINGS ON HIGHER PRICED GOODS. STILL ANOTHER WORRIED ABOUT HOW GOVERNMENT BUREAUCRATS WOULD DEFINE A REASONABLE PROFIT, WHICH HE MAINTAINS IS ALL HIS FIRM IS MAKING NOW ON THE ITEMS FOR WHICH THEY WANT A LOWER PRICE. ONE EXPRESSED THE OPINION THAT THIS PROGRAM REFLECTS THE ECHEVERRIA ADMINISTRATION'S BELIEF THAT MIDDLEMEN TAKE UNNECESSARILY LARGE PROFITS AND A MISUNDERSTANDING OF THE COSTS OF DISTRIBUTION AND RETAILING. SEVERAL BUSINESSMEN MAINTAINED THAT THE WHOLE SCHEME WAS DESIGNED BY RETAILERS TO PREVENT THE GOVERNMENT FROM EXPANDING ITS OWN RETAIL DISTRIBUTION FACILITIES.

4. ANOTHER GOVERNMENT ACTION THAT HAS IRRITATED THE PRIVATE SECTOR IS THE EXCESS PROFITS TAX. THE EXCESS PROFITS TAX WAS FIRST MENTIONED IN THE SEPTEMBER 1, 1976 INFORME AS A MEASURE TO PREVENT ANY "UNUSUAL OR EXCESSIVE" PROFITS RESULTING FROM THE EXCHANGE RATE CHANGE OR UNWARRANTED PRICE INCREASES. WE UNDERSTAND THAT ATTEMPTS TO WRITE LEGISLATION THAT WOULD APPLY SO NARROWLY FAILED. THE FINAL CONCEPT WAS INCLUDED IN THE LATE-DECEMBER TAX REFORM PACKAGE AND WAS NOT DISCUSSED WITH ANYBODY OUTSIDE THE GOVERNMENT PRIOR TO ITS PRESENTATION TO CONGRESS, TO THE BEST OF OUR KNOWLEDGE. (SFE REF B). BUSINESSMEN ARGUE THAT THE GROSS PROFITS TAX WOULD BE CONFISCATORY AND UNFAIR IN THAT IT PENALIZES COMPANIES WHOSE PROFITS MAY HAVE INCREASED FOR REASONS OTHER THAN THE DEVALUATION, I.E., A RELATIVELY NEW COMPANY THAT FINALLY TURNS A PROFIT. SOME COMPANIES ARE CONSIDERING A WRIT OF "AMPARO"(INJUNCTION) AGAINST

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THE EXCESS PROFITS TAX. THIS TAX HAS BEEN DEFENDED PRIVATELY BY GOM OFFICIAL AS A QUID PRO QUO FOR THE 10 PERCENT MINIMUM WAGE INCREASE. IN THIS REGARD IT SHOULD BE NOTED THAT PRESIDENT PUBLICLY LABELED BASIC CONSUMPTION GOODS PROGRAM AS TRADE-OFF FOR WAGE RESTRAINT.

5. WHATEVER THE MERITS OR FAULTS OF THE BASIC CONSUMPTION GOODS PROGRAM AND THE EXCESS PROFITS TAX, THEY HAVE HINDERED SOMEWHAT IMPROVEMENT OF PUBLIC-PRIVATE SECTOR RELATIONS AND ENCOURAGED CONTINUED SKEPTICISM OF GOM INTENTIONS ON THE PART OF THE LOCAL U.S. BUSINESS COMMUNITY WHO ARE LOOKING FOR FAVORABLE ACTIONS AS WELL AS FRIENDLY WORDS.

6. ON THE OTHER HAND, THE GOM IS MAINTAINING AN OPEN ATTITUDE TO BUSINESS COMPLAINTS. FOR EXAMPLE, PRESIDENTIAL ADVISOR RAFAEL IZQUIERDO HAS OFFERED TO SET ASIDE TWO DAYS FOR INDIVIDUAL HALF HOUR MEETINGS TO HEAR ANY COMPLAINTS FROM U.S. BUSINESSMEN AGAINST GOM POLICIES, PARTICULARLY AS REGARDS OBSTACLES TO FOREIGN INVESTMENT. THESE SESSIONS ARE TO TAKE PLACE PRIOR TO THE JLP TRIP TO THE U.S.
JOVA



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PAGE 01
ACTION EB-08

MEXICO 01306 031750Z

TNFO OCT-01 ARA-06 ISO-00 AGRE-00 CIAE-00 COME-00 INR-07
LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03
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FO 11652 : N/A
TAGS : PFOR ETRO MX
SUBJ : POSSIBLE TRADE TOPIC FOR LOPEZ PORTILLO MEETING WITH
PRESIDENT CARTER

REF : MEXICO 948

1. BRUCE EVANS, U.S.-CITIZEN PRESIDENT OF MEXICAN IN-BOND TEXTILE PLANTS (ACAPULCO FASHIONS) LOCATED IN CIUDAD JUAREZ AND ZACATECAS INFORMED EMBOFF FEB 1 THAT PRESIDENT LOPEZ PORTILLO PLANS TO RAISE SPECIFIC ISSUE OF U.S.-MEXICO BILATERAL TEXTILE AGREEMENT DURING HIS MEETING WITH PRESIDENT CARTER. EVANS TOLD EMBOFF THIS MATTER WAS DISCUSSED DURING LOPEZ PORTILLO'S MEETING LAST WEEK WITH GOVERNORS OF MEXICAN NORTHERN STATES, WHICH WAS ATTENDED INTER ALIA BY CHAIRMAN OF CIUDAD JUAREZ PRI PARTY (WHO ALSO HAPPENS TO BE LAWYER OF IN-BOND PLANTS MENTIONED ABOVE).

2. COMMENT: THIS REPORT ABOUT JLP'S INTENTIONS MAY BE CASE OF WISHFUL THINKING ON PART OF EVANS, WHOSE COMPANY HAS PERSONAL INTEREST IN OBTAINING LARGER

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QUOTA FOR TEXTILE CATEGORY 225 (BRASSIERES) ASSEMBLED
IN MEXICO AND THEN REEXPORTED TO U.S. EVANS WAS ONE
OF THOSE MANUFACTURERS WHOSE APPROACHES TO GOM
RESULTED IN GOM REQUEST FOR INCREASED TEXTILE CON-
SULTATION LEVELS AND CATEGORY LIMITS REPORTED IN
REFTEL.
JOVA

TEL MEXICO 048

EXCERPTS

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NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COMF-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 DHA-02 MCT-01 DODE-00 PM-04 W-01 L-03
PA-01 PRS-01 PC-01 CU-02 /095 W

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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 148
TNFO ALL USCONSULATES IN MEXICO POUCH
AMEMBASSY CARACAS
AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR
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dat 7/25/07

FO 11652 : GDS
TAGS : PINT MX PFOR EGEN
SUBJ: MONTHLY POLITICAL HIGHLIGHTS: JANUARY 1977
REF : MEXICO 874

1. SUMMARY: THE LOPEZ PORTILLO GOVERNMENT IS BEGINNING TO TAKE HOLD IN SUCH AREAS AS PRIVATE SECTOR-LABOR RELATIONS, AGRARIAN UNREST, PUBLIC ADMINISTRATION, AND DOMESTIC POLITICS THOUGH TERRORISM PERSISTS AND TEACHER UNIONS IN THE UNIVERSITIES ARE SHAPING UP AS A CHALLENGE. AT THE SAME TIME, THE GCM HAS MOVED HESITANTLY AND WITHOUT MUCH SUPE-FOOTEDNESS TO DEAL WITH WHAT IT RECOGNIZES AS THE MOST PRESSING PROBLEMS, THOSE IN THE FINANCIAL AND ECONOMIC AREA. END SUMMARY.

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2. LABOR-MANAGEMENT RELATIONS IMPROVED: JLP'S MOST NOTABLE SUCCESS TO DATE HAS BEEN THE COOPERATION ELICITED FROM THE PRIVATE SECTOR AND LABOR, BOTH OF WHICH HAVE PLEDGED TO TRY TO KEEP PRICES AND WAGES DOWN. THE AGREEMENT IS FRAGILE, HOWEVER, AND IT REMAINS TO BE SEEN WHETHER BOTH SECTORS WILL IMPLEMENT IN SPECIFIC ACTIONS THEIR GENERAL PLEDGES TO HELP CONTROL INFLATION. (SEE MEXICO 874).

3. AGRARIAN SITUATION CALMER. WHILE LAND INVASIONS HAVE NOT ENDED (THERE WERE NEW, SMALL ONES IN SINALOA IN THE LAST SEVERAL WEEKS,) THEIR NUMBERS HAVE DIMINISHED, AND STATE AND LOCAL AUTHORITIES ARE REMOVING, SO FAR WITHOUT VIOLENCE, CAMPESESINOS FROM LANDS INVADED AS LONG AGO AS OCTOBER 75. WE THINK THIS REPRESENTS LOCAL AUTHORITIES GETTING A NEW SIGNAL FROM MEXICO CITY AND ACTING ACCORDINGLY. THE GOM IS NOW ACTIVELY BUT QUIETLY MEDIATING IN THE SONORA LAND EXPROPRIATION, AND BOTH SIDES ARE REFRAINING FROM ANY ACTION WHICH WOULD DISTURB THE TALKS. THERE IS ALSO EVIDENCE OF A POLITICAL HOUSE-CLEANING OF ECHEVERRIA LOYALISTS IN THE FOUR MAJOR CAMPESEINO ORGANIZATIONS, THE REMOVAL OF SALCEDO MONTEFON FROM THE CNC BEING THE MOST IMPORTANT SUCH CHANGE.

4. ADMINISTRATIVE REFORM: LOPEZ PORTILLO'S ADMINISTRATIVE REFORM MAY BE MORE MEANINGFUL THAN OUR PREVIOUS REPORTS WOULD INDICATE. MORE THAN JUST A RESHUFFLING OF CABINET RESPONSIBILITIES, THE REFORM IS INTENDED TO IMPOSE REAL FISCAL AND POLICY CONTROLS IN THE HERETOFORE FREE-WHEELING PARASTATAL AGENCIES, WHO CONSUME HALF THE ANNUAL BUDGET; BUDGET AND ACCOUNTING PROCEDURES HAVE BEEN TIGHTENED; TREASURY'S CONTROL OVER THE PUBLIC DEBT HAS BEEN INCREASED; AND THERE ARE STEPS BEING TAKEN TO UPGRADE THE PROFESSIONALISM OF THE CIVIL SERVICE. (ATRGAM FOLLOWS.)

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5. FIRM HAND ON DOMESTIC POLITICS: GOM INNOVATION IN PUBLIC ADMINISTRATION IS NOT BEING REFLECTED IN INTERNAL POLITICS. THE GOM SOLVED THE NUEVO LAREDO ELECTORAL PROBLEM IN TRADITIONAL FASHION BY SEATING BOTH PRI AND OPPOSITION CONTESTANTS. ALTHOUGH THE SITUATION STILL COULD CHANGE, SO FAR BAJA CALIFORNIA VOTERS ARE HAVING TO SWALLOW THEIR UNHAPPINESS OVER THE IMPOSITION OF ECHEVERRIA'S SECRETARY OF DEFENSE AS GOVERNOR, LIKEWISE, PUERTO VALLARTA VOTERS, WHILE STILL CAUSING HEADACHES, ARE NOW BEING GOVERNED BY A SIMILARLY UNPOPULAR IMPOSITION. PRI PRESIDENT SANSORES HAS SEVERAL TIMES SPOKEN OF MAKING THE PROCEDURE FOR SELECTING MUNICIPAL CANDIDATES MORE DEMOCRATIC, BUT NO ONE ANTICIPATES REAL REFORM.



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INFO ALL US CONSULATES IN MEXICO POUCH

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AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

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6. TERRORISM PERSISTS: FOUR TERRORIST INCIDENTS IN ONE WEEK IN JANUARY SERVED TO REMIND THAT THIS PROBLEM HAS NOT GONE AWAY. TWO OF THE FOUR INCIDENTS OCCURRED WHEN MANAGEMENT OFFICIALS ATTEMPTED TO REMOVE PERSONS DISTRIBUTING 23 OF SEPTEMBER COMMUNIST LEAGUE LITERATURE FROM INDUSTRIAL SITES: THE TERRORISTS RESPONDED WITH GUNFIRE, KILLING A VISITING U.S. BUSINESSMAN IN ONE INCIDENT. WHILE GOM OFFICIALS HAVE EXPRESSED CONCERN, NO MAJOR PUBLIC GOVERNMENT FIGURE HINTED AT USG INVOLVEMENT, A REFLEX OF THE ECHEVERRIA ADMINISTRATION.

7. UNIVERSITY PROBLEMS: EFFORTS BY SELF-PROCLAIMED "MARXIST, ANTI-IMPERIALIST" ELEMENTS TO UNIONIZE UNIVERSITY ACADEMIC AND ADMINISTRATIVE PERSONNEL IN THE LAST YEAR OR TWO HAVE PROGRESSED TO THE POINT WHERE TWO

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SUCH UNIONS AT MEXICO'S NATIONAL UNIVERSITY (UNAM) ARE CONTESTING GOM CONTROL OF THE CAMPUS. UNAM RECTOR SORERON LAST AUGUST SUGGESTED A CONSTITUTIONAL "REFORM" WHICH WOULD GIVE THE GOM THE LEGAL WHEREWITHAL TO HAMSTRING THE UNIONS. LITTLE HAS BEEN HEARD OF THE PROPOSAL SINCE THEN, BUT UNION RELATED DISORDERS IN JANUARY AT SEVERAL STATE UNIVERSITIES AND IN MEXICO CITY MAY REVIVE THE PROPOSAL. HOW THE JLP ADMINISTRATION HANDLES THE CHALLENGE IS SHAPING UP AS A POSSIBLY MORE REVEALING MEASURE OF ITS ABILITY TO GOVERN THAN HAVE BEEN ITS VARIOUS MINOR SUCCESSES TO DATE.

8. US-MEXICAN RELATIONS: THE WARMING TREND IN U.S.-MEXICAN RELATIONS WHICH BEGAN WITH THE DECEMBER VISIT OF MRS. CARTER CONTINUED APACE IN JANUARY. MRS. JLP'S RECEPTION IN WASHINGTON GRATIFIED MEXICO, FROM THE PRESIDENT TO THE MAN IN THE STREET, AND MEXICO WAS EQUALLY PLEASED WITH JLP BEING THE FIRST HEAD OF STATE INVITED TO WASHINGTON BY THE CARTER ADMINISTRATION.

9. WHILE THE CURRENT GOOD FEELINGS ARE GENUINE AND PERSONALLY FELT, MEXICO'S DESIRE FOR BETTER RELATIONS WITH THE USG HAS ALSO BEEN DICTATED BY MEXICO'S NEED FOR US HELP ON ITS ECONOMIC AND FINANCIAL PROBLEMS. WITH THE JLP VISIT THE GOM APPARENTLY HOPES TO CEMENT THE PERSONAL RELATIONSHIP BETWEEN THE FIRST FAMILIES, AND TO BENEFIT FROM THAT RELATIONSHIP BY, INTER ALIA, INFORMALLY LINKING ISSUES. OUR CONVERSATIONS INDICATE, FOR EXAMPLE, THAT MEXICO HOPES TO PROFIT FROM ITS RECORD OF COOPERATION ON NARCOTICS MATTERS TO GET MORE, PERHAPS MASSIVE, HELP ON ITS SHORT RANGE FINANCIAL PROBLEMS. WE HAVE THE NAGGING FEELING THAT THE NEW GOVERNMENT FEELS OVERWHELMED BY THE ENORMITY OF ITS PRESENT FINANCIAL AND ECONOMIC DIFFICULTIES AND IS COUNTING HEAVILY ON US PRIVATE AND OFFICIAL ASSISTANCE TO SEE IT THROUGH ITS HARD TIMES. (A SEPARATE REPORT FOLLOWS.)

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