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MEXICO AND ITS CREDITORS

The "world debt crisis" erupted when Mexico declared a negotiated moratorium on August 20, 1982, for 90 days on the payment of capital of its external debt. The indebted Latin American governments supported this "eruption", with the hope of rapidly finding an answer to their demands. Since that time, 28 different international plans or initiatives aimed at finding real, long-term solutions to this unbearable problem, that afflicts 426 millions of Latin Americans, have been laid on the negotiating table.

The truth is, the problem is getting worse, there is no "light at the end of the tunnel" and the private and governmental creditors have not taken part of the responsibility for the debt onto their own shoulders. The policies of economic adjustment, forcefully imposed upon the Latin American governments, have not become more "human", either, as Michel Camdessus, director of the International Monetary Fund (IMF) once suggested. Raúl Alfonsín, President of Argentina, summed up the present situation of the indebted nations when he said, "the impoverished democracies [of Latin America] cannot be squeezed any harder."

The social response cannot be expressed simply as "debt fatigue", as the aggravation of the

Table I

LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INCOME AND THE TRANSFER OF RESOURCES

(Billions of dollars and percentages)

Year	Net Capital Income (1)	Net Payments of Interest and Profits (2)	Transfer of Resources (3) = (1)-(2) (3)	Exports-Goods and Services (4)	Transfer of Resources/ Exports-Goods and services[a] (5) = (3)/(4) (5)
1973	7.9	4.2	3.7	28.9	12.8
1974	11.4	5.0	6.4	43.6	14.7
1975	14.3	5.6	8.7	41.1	21.2
1976	17.9	6.8	11.1	47.3	23.5
1977	17.2	8.2	9.0	55.9	16.1
1978	26.2	10.2	16.0	61.3	26.1
1979	29.1	13.6	15.5	82.0	18.9
1980	29.7	18.1	11.6	107.6	10.8
1981	37.6	27.2	10.4	116.1	9.0
1982	20.2	38.8	—18.6	103.2	—18.0
1983	2.9	34.4	—31.5	102.4	—30.8
1984	10.3	37.0	—26.7	113.9	—23.4
1985	2.2	35.0	—32.8	109.6	—29.9
1986	8.3	31.9	—23.6	95.4	—24.7
1987	13.9	30.5	—16.6	108.2	—15.3
1988[b]	4.9	33.6	—28.7	121.9	—23.5

Source: 1973-1987: CEPAL, based on data provided by the IMF. 1988: CEPAL, based on national information.

[a] In percentages. [b] Preliminary estimates.

The truth is, the problem is getting worse, there is no "light at the end of the tunnel" as private and governmental creditors have not taken part of the responsibility for the debt onto their own shoulders

problem is labelled at the international level. Demonstrations throughout the region protesting against austerity measures rapidly evolve into widespread social unrest, with the death of many citizens as the outcome. Venezuela, Argentina, Brazil, Peru, Haiti and the Dominican Republic are living examples of a serious problem which politicians the world over who champion free trade have barely begun to appreciate. They can scarcely conceive that the growing lack of popular support for democratic governments of the region is real; that repressive, military forces threaten to take power; that it is no longer possible to sustain the net transfer of resources from the region, which has reached 180 billion dollars in the period from 1982 to the present. (Table 1)

Sub-employment in the city after emigration from rural areas.
Photo by Herón Alemán/Imagen Latina.

Foreign Debts in Latin America

According to international analyses made by specialists, the status of the foreign debt on a country by country basis is the following:

—"Weak" situations: Barbados with a 642 million dollar foreign debt; Dominican Republic with a 3,840 million dollar debt; Honduras with a 3,230 million dollar debt and Ecuador with a 10,500 million dollar debt.

—A "serious" situation: Haiti with a debt worth 800 million dollars.

—"Recuperating": Jamaica with a 4,400 million dollar debt; Bolivia with a 3,930 million dollar debt; Chile with a 19,100 million dollar debt and, in recuperation from "a state of shock", Venezuela with a debt worth 31,900 million dollars.

—"Exhausted": Costa Rica with a 4,580 million dollar debt and Trinidad and Tobago with a 1,800 million dollar debt.

—"Struggling": El Salvador with a debt worth 1,850 million dollars.

—With "arteriosclerosis": Guatemala, indebted for 2,820 million dollars.

—In "severe shock": Panama with a foreign debt worth 4,760 million dollars.

—In a "precarious" situation: Argentina with a debt worth 56,810 million dollars and a "depressing" outlook for Peru whose debt comes to 16,170 million dollars.

—"Stable": Colombia with a 15,900 million dollar debt; in "rehabilitation", Uruguay with a debt worth 6,050 million dollars and "in shock", Paraguay with a 2,440 million dollar debt.

Concerning the future, a prestigious publication, *The International Economy*, projects: for Argentina, worse; for Bolivia, better; for Brazil, the same; Chile, the same; Colombia, the same; Ecuador, worse; Mexico, the same, Peru, worse; Uruguay, better and Venezuela, the same. And the magazine specifies: "The global climate as far as the foreign debt problem is concerned has worsened for the debtor nations. For the creditors, it has also deteriorated". This publication makes the following comments on the "socio-political indicators" in the indebted Latin American nations:

"Argentina, Brazil, Colombia, Ecuador and Mexico face political situations that are unfavorable for the establishment of sound economic measures.

"Peru confronts potentially serious social unrest while Bolivia, Chile, Uruguay and Venezuela are in suitable conditions for the establishment of economic adjustment policies".

The importance of the "socio-political indicators" becomes evident when the round of

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Table 2

PRICES IN THE SECONDARY MARKET OF THE DEBT OF SOME LATIN AMERICAN COUNTRIES

Country	July 1985	July 1986	July 1987	May 1988	March 27/89	April 3/89
Argentina	60-65	63-67	46-49	28-29	16.75/ 17.25	16.25/ 17.00
Brasil	75-81	73-76	58-61	55-56	34.25/ 34.75	35.00/ 36.00
Chile	65-69	64-67	68-70	61-62	59.50/ 60.00	58.50/ 59.50
Ecuador	65-70	63-66	45-47	na*	12.00/ 14.00	the same
Mexico	80-82	56-59	55-57	54-55	40.50/ 41.00	42.00/ 43.00
Peru	45-50	18-23	10-12	04-09	05-07	the same
Venezuela	81-83	75-78	70-72	55-56	33.50/ 34.50	35-36

Source: Shearson Lahman Brothers and Bear, Stearns and Co., Merrill Lynch, International Financing Review and Libra Bank.
Figures in billions of dollars *not available.

presidential elections this year (Argentina, Bolivia, Brazil, Chile and Uruguay) and in 1990 (Colombia and Peru) is taken into account.

Proposals to Solve the Debt Crisis

Of the 28 plans or initiatives that have been presented as solutions to the debt crisis, the following are the most outstanding:

The Alfonsín Plan which demands the reduction of interest rates of the commercial banks by 4 percentage points, gives substantial periods of grace and extends the schedule of payments over a period of 30 years.

The Baker Plan, which proposed the transfer of 20 billion dollars from commercial banks and 9 billion from multilateral agencies to the debtor countries in the form of loans.

The plan put forth by *Bank of America,* which contemplates the alleviation of the debt through changes in interest rates, either reductions of the rates or loan increases. *The Bolivian Plan* suggested buying back the debt at secondary market prices with intervention by the commercial banks.

There is the *Bradley Plan* which supports economic reforms in the debtor nations by charging lower interests. *Fidel Castro's Plan* specifies that the debtors should stop paying interest and that the creditors should take over these payments to the commercial banks.

The Dornbush Plan proposes that creditors invest their profits in the economies of the debtor nations for a period of 8 years. *Alan García's Plan* limits the possible interest payments to 10 percent of the country's export earnings and proposes paying only those creditors who give new loans.

The Mexican Plan with the Morgan Guarantee, which was integrated into the *Brady Plan,* contemplates buying back the loans from commercial banks at market prices, with the help of zero option coupons, in order to exchange the old debt for new loans.

The Mitterrand Plan, which urges multilateral organizations to offer guarantees of reductions, has also been proposed, and more details should be available this coming July 14, when the Group of Seven meets in Paris during the celebration of the 200th anniversary of the French Revolution.

The Miyazawa Plan exchanges debt for stocks and postpones the expiration of the loans. This plan endorses swaps, (an exchange of debt for investment). The plan proposed by the *United Nations* specifies that debtors should pay lower interest rates on their debt to the commercial banks.

Finally, the *Brady Plan,* which is still being debated, implies an important change of attitude because it is the first plan that recognizes that in order to pay there must be growth.

Since 1982 Mexico has signed four Letters of Intention with the IMF; it has participated in unending negotiations on the restructuring of its public and private debts and it has been threatened with being designated by the international banks as "in moratorium"

Mexico's Role in the Renegotiation of the Debt

Mexico chose the *Brady Plan* and presented its "menu of options" to the Bank Advisory Committee in New York on April 19, eight days after having announced its new Letter of Intention to the IMF, a

Mexico has the support of the IMF, the World Bank and the Inter-American Development Bank as well as the majority of governments of the industrialized countries. It is waiting for a clear response from the international commercial banks

process that was closely followed by the indebted governments of Latin America.

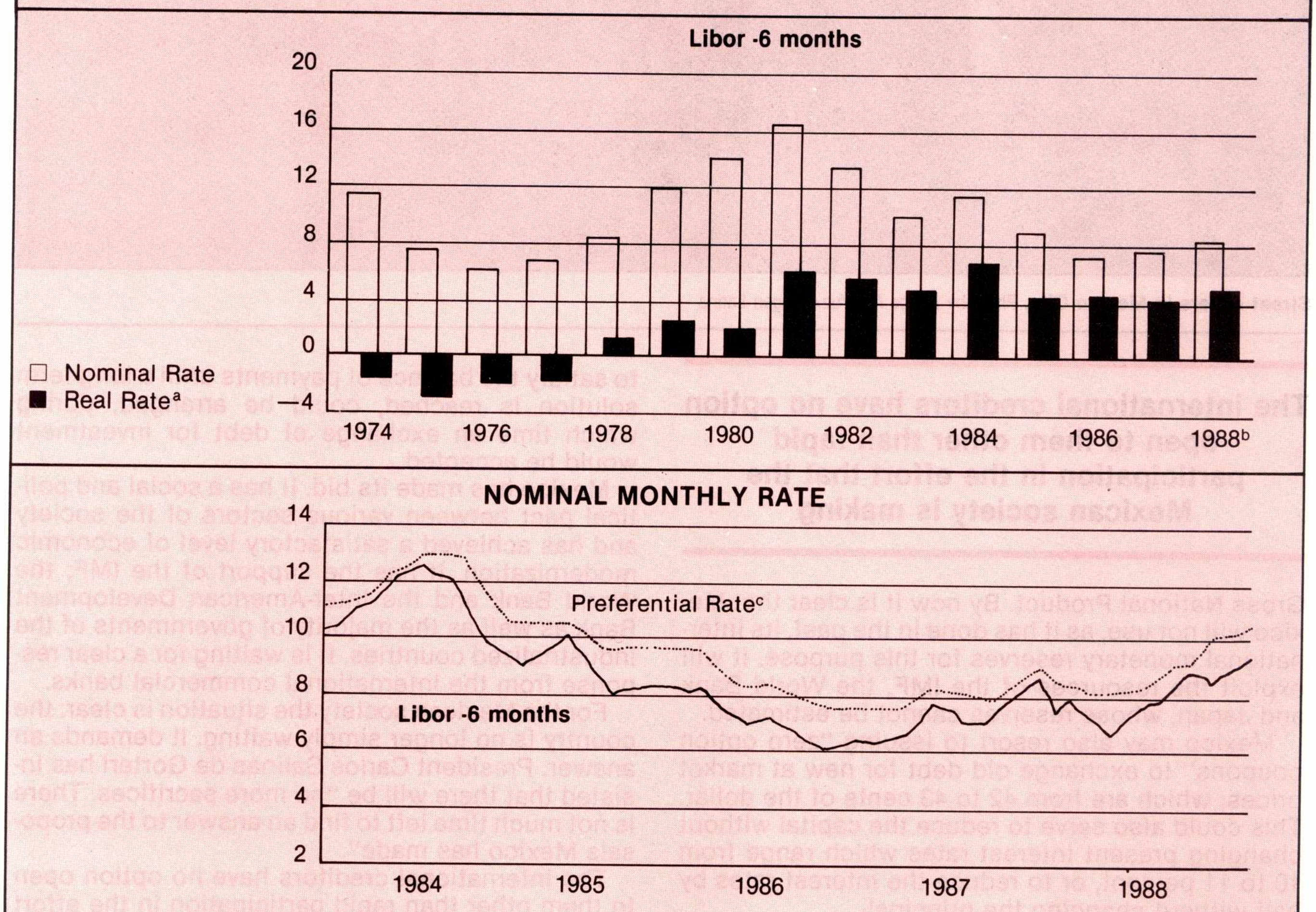
In the past, Mexico has declared a moratorium during negotiations. The first time was on August 20, 1982 when it declared a moratorium for 90 days. After some negotiation, it was extended for another 120 days, and once again, on March 10, 1983 it was prolonged until August 15 of the same year. On April 21, 1989, Mexico requested an extension of the expiry date for payment of 1,175 million dollars.

Mexico has, since 1982, signed four Letters of Intention with the IMF; it has participated in unending negotiations on the restructuring of its public and private debts; it has been threatened with being designated by the commercial banks, at the international level, as "in moratorium"; it has also been forced, during negotiations, to announce "the suspension of payments" because of the inflexible attitude of its creditors.

Jesús Silva Herzog Flores, who on June 6, 1986 publicly announced the possibility of a unilateral moratorium, presented his resignation as Secretary of the Treasury eleven days later.

Gustavo Petricioli substituted him as Treasurer, and on at least two occasions he also used "the unilateral moratorium" as ammunition during negotiations. Pedro Aspe Armella, the present Secretary of the Treasury, has received orders from the President to reduce the foreign debt and lower the net transfer of resources from 6 to 2 percent of the

Table 3
INTERNATIONAL INTEREST RATES
(Percentages)



[a] Nominal rate deflated by the consumer price index of industrialized countries
[b] Average for the period from January to November
[c] Prime rate, a preferential rate that the U.S. banks give their best clients

Source: CEPAL, based on the IMF's *International Financial Statistics*.

Street sellers in Mexico City. Photo by Marco A. Cruz/Imagen Latina

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Gross National Product. By now it is clear that Mexico will not use, as it has done in the past, its international monetary reserves for this purpose. It will exploit the resources of the IMF, the World Bank and Japan, whose reserves cannot be estimated.

Mexico may also resort to issuing "zero option coupons" to exchange old debt for new at market prices, which are from 42 to 43 cents of the dollar. This could also serve to reduce the capital without changing present interest rates which range from 10 to 11 percent, or to reduce the interest rates by half without changing the principal.

The commercial banks would also have the option to make new loans even if they decided they did not want to participate in any of the possibilities mentioned in the previous paragraph. New loans for growth could be made, or bilateral support to satisfy the balance of payments until a long term solution is reached, could be arranged, during which time an exchange of debt for investment would be accepted.

Mexico has made its bid. It has a social and political pact between various sectors of the society and has achieved a satisfactory level of economic modernization. It has the support of the IMF, the World Bank and the Inter-American Development Bank as well as the majority of governments of the industrialized countries. It is waiting for a clear response from the international commercial banks.

For the Mexican society the situation is clear: the country is no longer simply waiting. It demands an answer. President Carlos Salinas de Gortari has insisted that there will be "no more sacrifices. There is not much time left to find an answer to the proposals Mexico has made".

The international creditors have no option open to them other than rapid participation in the effort that the Mexican society is making, and contributing to that society's growth.

The only other possible Mexican response, which in fact has ample support, is the "unilateral moratorium". □