MEXICAN FOREIGN DEBTS FROM BOOM TO BUST, 1970-1997

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The Mexican economy is frequently described in the financial press as a dynamic but unstable *emerging market* which means, in more traditional language, that it is a developing economy, confronted by marked boom and bust cycles. A key factor that has accentuated the ups and downs of the Mexican economy and distorted its financial and monetary performance has been the steadily growing foreign debt, the service of which has forced the Mexican people to pay an extraordinary financial sacrifice over the last fifteen years. A fundamental question is whether Mexico can break out of this complex debt trap, but in order to explore the possible alternatives, we need first to keep in mind the origins and causes of this contemporary financial dilemma, which also affects many other Third World nations.

The total Mexican foreign debt- public and private- is currently near $ 170 billion, ranking as the second largest in the Third World, being surpassed in size and complexity only by that of Brazil. The growth of the debt has been exponential since the mid-1970s and has not ceased growing, even during the prolonged debt crisis of the 1980s. During the 1990s the foreign debt accelerated its pace of growth but it has changed markedly in character for three reasons, all of them related to the process of financial globalization. The first is that the leading private Mexican corporations have participated increasingly in international bond issues. The second is that the Mexican stock market has become an important vehicle for attracting foreign loan capital. The third is that the Mexican government has accumulated a complex series of financial obligations abroad as a result of the Mexican economic crash of 1994/1995 and its aftermath. How these new circumstances will affect the economy, society and polity in the near future and whether new debt crises are likely to recur are thus critical questions. It appears likely that events in Mexico in the second half of the 1990s provide a suggestive preview of the way national debt dynamics and financial globalization will interact in the early 21st century. But first a historical overview is in order to see why the Mexican foreign debt has grown so rapidly over the last thirty years, provoking extreme and perverse fluctuations in the national economy.

THE ORIGINS OF MODERN MEXICAN FOREIGN DEBT: THE 1960S AND 1970S

During almost two decades after the end of World War II, Mexico -like the majority of Latin American nations- negotiated few foreign loans. The first *substantial* increase in external indebtedness came only after 1960 as loans were taken mainly for infrastructure programs and financial stabilization, most of these being provided by the multilateral financial agencies: the World Bank, the Interamerican Development Bank and the International Monetary Fund (IMF). The nature of these foreign loans were attractive for Latin American governments since they tended to carry relatively low interest rates and extended timetables for repayment. Moroever, they were essential to the development of key economic sectors for which it was difficult to obtain private investment:

electricity generation and distribution; the development of national telephone system; the building of modern roads and bridges; and the development of infrastructure for the rapidly growing cities of the region. Nonetheless, the total loans disbursed initialy were not great: in Mexico the external debt stood at $ 2.3 billion in 1964, increasing to $ 6.0 billion by 1970.

During the decade of 1970s several important changes took place in the evolution of Latin American foreign debts. To begin with, the amount of capital available for loans on international financial markets increased phenomenally as a result of the twin phenomena of the recycling of petrodollars and the prolonged European economic recession. This sudden abundance generated tremendous rivalry generated among international banks to maintain or increase their market shares in the lucrative Third World debt transactions. [2] Another was the competition among Latin American state-owned companies and banks for additional funds, and later among large private banks and corporations. [3]

TRENDS AND STRUCTURE OF MEXICAN DEBT DURING THE LOAN BOOM: 1975-82

The real boom of the Mexican foreign debt began in the early 1970s: standing at $ 7 billion in 1972, it doubled to $ 14 billion in 1974 and doubled again to $ 29 billion in 1977, reaching the phenomenal sum of over $ 80 billion by early 1982. Curiously, however, the relative proportion of public to private debt did not change markedly, averaging slightly over 70% for the public sector and almost 30% for private enteprise during the great loan boom of 1972-1982.[4]

What did change was the supply of funds from abroad. While most of the foreign loans during the 1960s and early 1970s were extended directly to the Mexican government by multilateral financial agencies, from the mid-1970s the international debt scenario changed dramatically as private United States, European and Japanese banks aggressively sought out new clients in Latin America. Literally hundreds of U.S. banks provided loans to Mexican public and private enterprises, but by 1982 six large banking corporations led the pack: Citicorp ($ 2.8 billion in Mexican loans), Bank of America ($ 2.5 billion), Manufacturers Hanover ($1.9 billion), Chase Manhatten ($ 1.6 billion), Chemical Bank ($1.4 billion) and J.P. Morgan ($ 1.1 billion).[5]

The bulk of the loans went to state enterprises and banks which demanded much financial support for their fast expansion plans in the 1970s. In the case of Mexico two public enterprises, Petroleso Mexicanos (PEMEX), the profitable state petroleum monopoly, and Comisión Federal de Electricidad (CFE), the state electrical consortium, took the most loans. The foreign debt of PEMEX had stood at barely $ 367 million in 1970 but by 1981 had surpassed $ 11 billion, representing 27% of total long-term Mexican public debt. Promoting electrical expansion was also a major government priority under the administrations of presidents Luis Echeverría (1970-1976) and José López Portillo (1976-1982), which led the external obligations of the public electricity corporation, CFE, to rise from $ 990 in 1970 to over $8.2 billion by end of 1981.

Another important set of public enterprises seeking foreign finance were the state banks, being led initially by Nacional Financiera (NAFINSA), but surpassed in the late 1970s by Banco Nacional de Obras Púbicas (BANOBRAS), the Banco Nacional de Comercio Exterior, and the Banco de Crédito Rural: *in toto*, by 1981 they held over $ 10 billion of foreign loans and over $ 8 billion in short term external obligations.[6]

Private Mexican corporations also went abroad for financial support, spearheaded by a group of industrial and financial corporations based in Monterrey, the economic capital of northeast Mexico. Among the most aggressive operators in international markets was the conglomerate ALFA, which took over one billion dollars of loans, mainly with United States banks. These financial obligations, however, were predicated on a relatively stable exchange rate as well as rising export earnings by these firms. These conditions were met through the late 1970s and up through mid 1981, but subsequently local and international economic conditions would change dramatically and force ALFA, among others, into bankruptcy, followed by a prolonged restructuring process.

While approval by the Mexican government of the spate of new loans was generally required, neither bankers nor politicians appeared to be overly interested in a careful monitoring of the accumulation of debts nor whether the companies receiving the monies were truly capable of servicing them. Moreover, since the majority of the bonds issued were guaranteed by the public sector, it was presumed that the Mexican government would not consider a suspension of payments. For as Walter Wriston, then president of Citicorp, gleefully pronounced in the midst of the loan boom of the late 1970s: "Countries don't go bankrupt !" However, in 1982 Mexico virtually went under, initiating what would be the deepest and prolonged debt crisis in Latin American history.

THE DEBT CRISES OF THE 1980S

By 1980 the number of loan transctions had reached a climax but there was no adequate way of knowing exactly how much money was involved, how many players were operating, and how this might affect the finances of the debtor countries. There was clearly a severe information problem which neither the IMF nor the World Bank had resolved. [7]

After the Federal Reserve Bank of the United States- then headed by Paul Volker- increased interest rates in the early 1980s, the majority of Latin American debtors had to find additional loans to bridge the costs provoked by the increase in interest payments. However, the huge debt service obligations went beyond the relatively limited budgetary possibilities of Latin American governments: financial globalization and indebtedness had surpassed both expectations and fiscal realities.

The first country to fall was Mexico, which declared a temporary suspension of payments in August, 1982. Its total external debt at this point was U$S 87 billion, of which almost $60 billion was public sector debt, $19 billion was private sector debt and $8.5 billion was commercial bank debt.

The impact of the Mexican crisis on international finance was dramatic and at the IMF/World Bank meetings in September of 1982 there was talk of a possible panic on world markets. This grim prospect spurred a series of international financial agencies into action to produce a rescue package which could serve to deter a possible debacle. By November the key actors had reached agreement on an 8 billion dollar package (approximately the sum Mexico needed to service its debt in 1982): the IMF would provide 4,500 million dollars from its extended drawing facilities to help guarantee debt service payments on the Mexican debt; the Bank of International Settlements (BIS) would extend 1,850 million dollars in credits; and the Commodity Credit Corporation and the Stablization Fund of the United States Treasury would each provide 1,000 million dollars in additional short-term funds. [8]

Subsequently, negotiations began to restructure part of the external debt. In the spring of 1983 two groups of commercial banks provided an additional $ 7 billion in credits to Mexico in order to stretch out the rescue package of November and to guarantee interest payments in 1983. [9] In years following there were a large number of additional negotiations, many of them with the Bankers' Steering Committee, headed by William Rhodes of Citibank, which represented the 530 international banks that had interests in Mexican debt.

Less well-known, perhaps, is the fact that a second Mexican debt crisis erupted in mid 1986 as a result of the collapse of world oil prices. Once again, the Mexican finance ministry had to advise its bankers that the debt service would probably be suspended and, as a result, a new multinational financial package was organized to avoid a moratorium. This package included a $1.7 billion dollar IMF loan, a $2.3 billion World Bank loan, a commercial bank loan of $1.6 billion, a Club of Paris restructuring agreement of $1.5 billion and a $1 billion dollar credit from the government of Japan. [10]

Finally, following new restructuring agreements with the international commercial banks, a series of proposals made by successive secretaries of the United States Treasury, James Baker and Nicolas Baker, served as the basis for a more long-term resolution of the Mexican debt crisis in the year 1988. The basic accord was based on the exchange of the old bonds for new so-called *Brady* bonds, which were Mexican debt long-term debt instruments but with a US Treasury guarantee. The net result was a limited discount of the total capital owed to banks and a drop in debt service payments.[11]

The Mexican debt restructurings reflected the success of the alliance of the IMF, the U.S. Treasury, and the international private banks in imposing rigorous debt service payments and initiating a dramatic restructuring of the Mexican public sector, including privatization of state enterprsies and liberalization of foreign trade. This set of neoliberal policies which were, in part, the offspring of the debt crisis and which were applied in many developing nations came to be known as the *Washington Consensus*.[12] Once neoliberalism was generally adopted by most Latin American political and financial elites, it became possible to carry out new programs of financial engineering- like the Brady Plan- which could help reconciliate debtor countries and their numerous international creditors.

The initial stages of what would become the Brady plan had been negotiated by the Mexican president Miguel de la Madrid (1982-1988), but the new debt program was actually put in place by his successor, Carlos Salinas de Gortari (1988-1994). The Brady plan thus became operative for Mexican debt in 1989, serving as the basic model for subsequent financial arrangements in most other Latin American nations.[13]

DEBT UNDER THE SALINAS ADMINISTRATION, 1989-1994: PRIVATIZATION AND A NEW LOAN BOOM

Once the Brady plan had proved a success, from the point of view of the international banks, the new Mexican administration headed by Carlos Salinas adopted strategies to attract more capital from abroad in order to relaunch economic growth. Much of the money that began to pour in was actually that of Mexican plutocrats who had stashed away billions of dollars in the United States or in off-shore banking accounts. A major attraction for the return of these funds to Mexico was the privatization of numerous state-owned Industrial and banking firms.

Among the larger firms sold by the Mexican government between 1989 and 1993 was the public telephone monopoly, TELMEX, bought by a syndicate of investors headed by Carlos Slim Helú, a Mexican financier who has subsequently become the richest man in Mexico and in all of Latin America. [14] Other privatized firms included several huge steel mills, more than a dozen sugar refineries, the DINA bus manufacturing plants, some twenty agroindustrial companies and many mining enterprises formerly owned and run by the state. *In toto*, the Mexican government received $ 12 billion for these valuable properties, which were actually worth much more. [15]

At the same time, the Salinas administration proceeded to sell off the 23 commercial banks (which had been been nationalized in 1982), obtaining an additional $ 12.3 billion from wealthy, domestic investors.[16] The principal new owners- approximately 220 individuals- used these financial institutions to revamp the entire industrial/banking structure of Mexico, leading to a rapid process of concentration and centralization of domestic capital. But at the same time, the new generation of so-called "neobanqueros" began to look abroad for new sources of funds to finance their powerful financial/industrial groups.[17]

As a result, between 1990 and 1994, the foreign private debt began to grow again at a fast rate but also, and more dangerously, with a much shorter timetable of amortization than that of the late 1970s. The bulk of the new debt was now placed by large Mexican companies which sold stock and bonds abroad (Telmex and Cemex were the leaders) as did the largest of the recently privatized banks Banamex, Serfin and Bancomer. However, in the years 1992-1994, a considerable number of medium-sized Mexican companies and banks also entered the fray, taking loans abroad because of the low interest rates in the industrialized countries, particularly in the United States and Japan. And, at the same time, state development banks again went in heavily into the international debt market.

According to the International Monetary Fund, between 1990 and 1993 Mexico received $91 billion, or "roughly one fifth of all net inflows to developing countries."[18] Of this sum, portfolio inflows amounted to $ 61 billion while foreign direct investment was only $ 16.6 billion. Much of the money pouring in from abroad went into the Mexican stock market, to the tune of at least $ 22 billion, stimulating a boom on the domestic stock exchange that created an aura of economic prosperity that was reflected in the excessively optimistic bulletins of both the government and the financial press.

The bubble built up in the Mexican stock exchange continued to attract money from the United States as a result of stability of the pegged exchange rate, carefully nurtured by the Mexican Central Bank and the Finance Ministry. But that apparent stability was not based on solid economic fundamentals, for in the early 1990s Mexico accumulated a commercial deficit of over $ 100 billion as a result of adoption of the General Agreement on Trade and Tariffs (GATT) and subsequently negotiation of the North American Free Trade Agreement, ratified in November, 1993.

Equally troubling were underlying trends of Mexican public finance, particularly with respect to the evolution of the external debt. Although the private external debts had increased at rapid rates in the years 1990-1993, it was the extraordinary jump in public external obligations in 1993/1994 that made the problem insoluble. The origins of the increased indebtedness were two-fold. On the one hand, virtually all the state-owned banks (Nacional Financiera, Banobras, Banco Nacional de Comercio Exterior, Banrural) took enormous amounts of dollar, yen and mark-denominated debt abroad to benefit from the low interest rates. On the other, during 1994 the Mexican Finance Ministry and the central bank, the Banco de México, began to issue a huge volume of short-term financial instruments known as *tesobonos*, which were domestic bonds but payable in dollars. By December of 1994, $ 30 billion worth of *tesobonos* had been placed among wealthy domestic and foreign investors. This new debt, however, was a timebomb because they had to be paid off in less than one year, constituting a financial burden that would soon lead to the bankruptcy of the government.

MEXICAN POLITICS AND THE DEBT CRASH OF 1994/96

During 1994, the last year of his administration, former Mexican president Carlos Salinas de Gortari played a game of high-stakes poker with public finance, raising the ante (by issuing thirty billion dollars worth of *tesobonos*) on the presumption that while in office he would not lose the match. For the the Salinas administration the key question was to avoid a major devaluation as that might undermine the recently-signed North American Free Trade Agreement (NAFTA) and jeopardize the possible success of the *Partido Revolucionario Institucional* (PRI) in the presidential elections held in August of that year.

The history of events in 1994 in Mexico provides an excellent case study of how politics can determine financial developments. But not all political events have the same impact. For instance, some observers argued that the launching of the rebellion of the Zapatistas in Chiapas on January 1, 1994 had a major impact on Mexican financial markets but, in fact, this was was not the case. The Mexican Stock Exchange continued to rise until mid- February, when it began to slip after the Finance Ministry sold off $ 1.5 billion in Telmex stock, depressing the market. Subsequently in March, the assasination of presidential candidate Luis Donaldo Colosio, provoked considerable panic among wealthy Mexican and foreign investors, who took over $ 10 bilion out of the country in a few weeks. [See Graph 1].

At this point, the authorities in charge of the central bank (Banco de México) and of the Finance Ministry began to make important mistakes in the evaluation and handling of monetary policy. Miguel Mancera, director of the bank, convinced the Minister of Finance, Pedro Aspe, that one way of countering capital flight after the assasination would be to issue new financial instruments (short-term debt indexed to the dollar), soon known as *tesobonos*.

Accepting the massive issue of *tesobonos* was perhaps the biggest mistake of finance minister Aspe and indeed can be considered the most serious error committed by any finance minister in the history of modern Latin America. The main public debt instruments of the Mexican government in 1993 were still CETES (Certificados del Tesoro) which were payable in pesos. However, as political instability increased in late 1993 and early 1994 and capital outflows began (steadily and in large volumes from March, 1994) Aspe decided to authorize the issue of increasingly large numbers of the *tesobonos* allowing holders of CETE's to sell their securities and hedge against the devaluation risk that was emerging but without taking the money out of Mexico. [See Graph 2.]

An increasing volume of *tesobonos* were sold in months following, rising to $ 15 billion in September and finally to $ 30 billion by early December. Although the new debt was nominally considered an internal obligation, in practice it was simply a new form of very short-term external debt. In point of fact, the average maturity of this new and huge dollar-indexed debt was <u>less than</u>

eight months by early December which meant, in effect, that the Mexican government did not have sufficient funds to cover its financial obligations.

However, neither the Finance Ministry nor the Banco de México made public the true levels of hard currency reserves nor the fact that the government was so deeply debt, thus allowing the political and economic pressure to build up steam simultaneously until the change in presidential administration in early December.[19] The new president, Ernest Zedillo, was barely in office when Miguel Mancera, head of the Banco de México, committed the cardinal sin which a central banker should not. He began sending messages to privileged players in the market that he was going to devalue. The Banco de México bought back some 2 billion dollars in *tesobonos* in the first two weeks of December, stimulating private financial agents to follow suit: the leading financial firms in Mexico bought an estimated $ 16 billion in tesobonos in order to cover themselves against devaluation.[20] They did so largely by placing orders with foreign investors who sold their Mexican securities in exchange for dollars. The result was that the dollar reserves of the Banco de México declined and the pressure for a devaluation built up.

On December 20, 1994 the new Finance minister, José Serra Puche, and the director of the Mexican central bank, Miguel Mancera, resolved to move to a more flexible exchange rate, allowing for a 15% devaluation. However Serra Puche and Mancera had both made an enormous blunder as the top Mexican bankers moved in for the kill on the following day: on December 21, and in the short space of five hours, they bought some $8 billion dollars, virtually wiping out the last reserves of the central bank. Subsequently there was no alternative but to allow for a complete devaluation which provoked a free fall for the peso.

The results of the devaluation were a financial crisis followed by an economic depression which has been the worst in Mexican history since the Great Depression. The errors of the finnciers (public and private) proved more costly than ever, as more than one million people lost their jobs in 1995, a large number of banks entered into technical bankruptcy (being saved only by government intervention) and the national gross product dropped eight per cent in one year. Moreover, the Mexican crash immediately provoked an international financial crisis.

The Mexican financial catastrophe was so ominous that as international investors began to pull billions of dollars out of many emerging markets in Latin America and Asia. As a result, the United States Treasury headed by Robert Rubin organized an extraordinary emergency financial package in February 1995 which initially involved a guarantee of almost $40 billion dollars for Mexico, the largest sum ever to be provided to one individual country. The total actually disbursed during the years 1995 and 1996 by the US Treasury (using the Monetary Stabilization Fund) was $12.5 billion dollars, plus slightly over $17 billion disbursed by the International Monetary Fund, plus some $4 billion from the World Bank and the Interamerican Development Bank and lesser sums from commercial banks.[21]

The initial objective of the rescue package therefore was not to help the lenders who had advanced money to private or public entities in Mexico. It was something quite different, being the result of an immense increase in international capital flows on a short term basis which contributed to global volatility and which had surpassed all expectations. While the regulation of these flows was not possible, by organizing the huge financial package for Mexico, the United States Treasury and the International Monetary Fund were rather dramatically informing investors and bankers worldwide that stability was preferable to a prolonged international financial crisis.

But what happened with the lenders who actually advanced the money that built up the huge volume of short-term external debt in 1990-1994 ? The majority of lenders (domestic and foreign) who bought *tesobonos* did not lose money for they got their funds back in dollars; in fact, wealthy Mexican investors who bought huge quantities of these instruments with pesos in the weeks before the devaluation made enormous profits afterwards as the peso value of these peculiar securities doubled.[22] In effect, the US Treasury/IMF financial rescue package allowed for a huge transfer of funds to Mexico which allowed these lenders to get their money as the Mexican government paid off each of the successive monthly amortizations on schedule during 1995.

On the other hand, foreign investors who invested in the stocks of Mexican companies lost large amounts of money because of the fall in quotations. This helps explain why the representatives of many New York mututal funds specializing in international investment denounced the devaluation as an irresponsible policy measure, but it should be noted that foreign investors had made huge profits in the Mexico City market during the years 1990-1993 precisely because the peso was pegged to the dollar. When the threat of devaluation became clear after the Colosio assasination in March of 1994, it had been these same money managers who had insisted that there should be no change in Mexican monetary policy, but by doing so they were only increasing the risks of an even greater devaluation.

By far the greatest losers in the Mexican crash were domestic taxpayers who have had to carry the burden of paying off the U.S./IMF bailout loans ($ 22 billion), the service on the old outstanding foreign debt (slightly under $ 100 billion) and the governement bailout of Mexican commercial banks, handled through such programs as Fondo de Protección al Ahorro ($ 40 billion).[23]

During 1995 and 1986 Mexico has paid over $14 billion to the U.S Treasury to liquidate the emergency loans of early 1995, winning the applause of the Clinton administration for having fulfilled its financial obligations ahead of schedule. Most of that money came out of petroleum revenues, but even larger payments had to made to the international banking and investment community on outstanding short and long-term debt. The debt service plus the huge amortizations of outstanding debt have obliged Mexico to make debt payments abroad that surpassed $35 billion per year in both 1995 and 1996, the highest figures for any country in Latin American history to date.

Such financial sacrifice helps explain why the Mexican economy has been so severely depressed in the last years, with an 8.5% decline in GNP in 1995, followed by a slow and difficult recovery in 1996 and 1997.[24]

LESSONS FROM THE MEXICAN CRASH OF 1995/96: THE VICIOUS CIRCLE OF DEBT

The recent Mexican financial collapse was in many ways a new type of debt crisis and, therefore, it could be a mistake to think that there are very close parallels with the debt debacle of the 1980s. The Mexican financial and economic crisis of 1995/1996 had a specific political and historical origin, which has been underlined in this article and numerous publications.[25]

On the other hand, if one compares the mechanisms used to attempt to deal with both crises- that of 1982 and 1995- in its initial stages then it is clear that there are some significant parallels, especially with respect to the international mechanism of lender of last resort. The actors involved in the organizing the financial rescue plans for Mexico in November 1982 were basically the same as those involved in February 1995 and included the U.S. Treasury, the IMF, the World Bank and representatives of private international banks, all of them participating actively because of the importance of Mexico in in the international financial and political arena. However, they had to make larger commitments in the crisis of 1995 by a large factor, which helps explain the recent IMF decision to double the fund of special drawing rights which can be made available for dealing with financial crises in the future.[26] Perhaps for this reason Michel Camdessus, director of the International Monetary Fund, described the Mexican crash as "the first financial crisis of the twenty-first century."

But in what ways does the Mexican debacle suggest what may happen tomorrow ? Will Mexico and other Latin American nations be able to break out of the boom and bust cycles which have been accentuated by the marked fluctuations of large flows of capital moving in and out of the region ? In fact, if the volume and volatility of contemporary financial flows are a reliable guide, it would appear that these cyclical trends will be intensified in the future since current domestic savings rates (in Mexico and the rest of Latin America) are low and therefore increase demand for foreign sources of capital for investment. Indeed, according to a recent study: "Just to cover pent-up demand in water and santiation, telecommunications, power and transportation, Latin America needs to invest $ 60 billion each year for the next six years, about $ 1 billion each week." [27]

This demand helps to explain why despite the impact of the Mexican crash, capital flows to all Latin American nations were renewed with a vengeance in 1996. According to a recent issue of the journal Latin Finance, which covers both direct and equity foreign investments in the region, during 1996 over $ 77 billion in Latin American stocks and bonds were placed on international capital markets, a historical record. [28]

In the case of Mexico this included private as well as public debt. Mexican multinational corporations have taken loans or issued bonds abroad in 1996 for over $ 10 billion, including such monoliths such as CEMEX (the 3rd largest cement company in the world), TELEVISA (the largest Spanish-language media corporation), TELMEX (the privatized telephone oligopoly), ICA (the largest construction company in Latin America), and several other firms have been taking debts in foreign currencies due to the still high interest rates in the Mexican markets. CEMEX, for instance, now has a foreign debt of its own of $ 5 billion, which probably makes it the Latin American private corporation with the largest volume of foreign financial commitments. [29]

Mexican private and public banks have also taken on a large amount of foreign debt in the last year a half. The market leader in placing commercial paper abroad for the Mexican financial firms in 1996 was Bank of America which arranged financing for various private banks including Bancomer ($ 500 million), Banorte ($ 120 million) and Banco Inbursa ($ 150 million) while it also helped the state-owned development banks to obtain funds internationally, including Nacional Financiera ($ 315 million), and Banco Nacional de Comercio Exterior ($ 350 million).[30]

The most important external debt operations, however, have been those carried out by the government in order to pay off and restructure its external debts. In 1996 JP Morgan issued a huge $ 6 billion floating rate note for the Mexican government in order to help pay off the debt due to the US Treasury. And subsequently over $ 15 billion worth of Mexican debt has been restructured through new issues in the United State, European and Japaneses financial markets. [31]

The *total* Mexican debt ($170 billion) has not grown much since 1995 basically because of the huge payments on public debt and liquidation of short term debts of the commercial banks. However, the payments schedule for the next few years is still awesome. [32] The result is that Mexico is still stuck in a vicious debt trap which makes it necessary to transfer abroad a huge volume of funds abroad which should rather be used for productive investment domestically. The paradox is that while potentially Mexico has considerable domestic and tax resources to finance economic development, the huge debt service requires large annual payments to the United States, Europe and Japan. But at the same time, internal demands for investment stimulate a large flow of new foreign loans to Mexico.

This review of the recent Mexican debt history is indicative of the pernicious effects of the rollercoaster nature of loans cyles. An important question is whether the boom and bust cycles will continue or whether there is some way of breaking out of this vicious cycle. Optimism in this regard would appear to misplaced. The extraordinarily rapid changes that are ocurring in contemporary financial world markets are only increasing the degree of volatility in the so-called emerging markets. Financial globalization suggests that much thought must be devoted to analysis of future trends and possible ways of reducing the impact of volatility. The alternatives to a set of new strategies would appear to be even graver debt crises than those of the recent past if not dealt with well before the danger of collapse is imminent.

[1] Professor at El Colegio de México.

[2] See Robert Devlin, Debt and Crisis in Latin America: the Supply Side of the Story, Princeton, Princeton University Press, 1989.

[3] A third factor was the propensity of military governments- particularly in Argentina, Brazil, Chile and Peru- to take large loans for acquisition of huge amounts of sophisticated modern weaponry in the 1970s. The Mexican debt, however, was not linked to arms buying as its military forces remained small.

[4] The most penetrating analysis of the loan boom of the 1970s is still José Manuel Quijano *et al*, Finanzas, desarrollo económico y penetración extranjera, Puebla, Universidad Autónoma de Puebla, 1985. A detailed overview is found in Rosario Green, La deuda externa de México, 1973-1987: de la abundancia a la escasez, Mexico, Secretaría de Relaciones Exteriores/Nueva Imgane, 1988.

[5] Quijano, Finanzas..., p.85.

[6] The details are in Quijano, Finanzas..., pp.93-94.

[7] During the 1970s the important information resource of the World Bank, the annual publication World Debt Tables, regularly underestimated the total growth of public and particularly private foreign debt of Latin American nations.

[8] Data from José Angel Gurriá, La política de la deuda externa, Mexico, Fondo de Cultura Económica, 1993, and Secretaría de Hacienda Deuda externa pública mexicana, Mexico, Fondo de Cultura Económica. (1988), final Appendix.

[9] Ibid. In March commercial banks provided $5 billion to Mexico and in June the Club of Paris advanced another $2 billion in the way of commercial credits.

[10] Ibid.

[11] The most detailed analysis of the origins and implementation of the Brady bonds can be found in William Cline, International Debt Reexamined, Washington D.C., 1995. A journalistic account of the 1987/88 negotiations between the Mexican negotiating team led by Angel Gurría and the U.S. commercial bankers and government officials is found in Fernández Sotelo, "El último rescate", Tesis en ciencias y técnicas de la información, Universidad Iberomericana, 1994.

[12] An interesting critique of the Washington Consensus is found in Paul Krugman, "Dutch Tulips and Emerging Markets", Foreign Affairs (July-August, 1995), 74,4, pp.28-44.

[13] Again, William Cline, International Debt Reexamined is the basic source here.

[14] Forbes (June 1997) cureently estimates Slim Helu's fortune at over $ 6 billion.

[15] The details are in the book written by the government functionary in charge of supervizing the privatization process: Jacques Rogozinski, La privatización en México, México, Trillas, 1997.

[16] Ibid.

[17] A recent study on this new financial/industrial elite is that of Elvira Concheiro Bórquez, El gran acuerdo: gobierno y empresarios en la modernización salinista, UNAM/ERA, 1996.

[18] International Monetary Fund, International Capital Markets, August, 1995, p.53.

[19] Incredibly, until 1995, the Banco de México only published reports of levels of hard curency reserves three times a year. As a result, financial markets did not have adequate data to evaluate the true monetary situation of the country, a fact which contributed to speculation. It was only after the crisis in early 1996, that the Banco de México published a detailed report on dollar reserves during the key year of 1994: see Banco de México, Informe Anual 1995 (published in March, 1996).

[20] See the information in a careful study published in article by Robert González Amador in La Jornada, February 7, 1995, based on analysis of stock exchange and public debt transactions registered.

[21] A detailed analysis of the rescue package is in Carlos Marichal, "La devaluación y la nueva crisis de la deuda externa mexicana: reflexiones y reomendaciones", Este País, (Mexico) June 1995, no.51.

[22] Only wealthy Mexicans could participate in this financial gambling since each Tesobono cost U$S 100,000.

[23] According to a recent report, during 1996 this huge financial bailout cost Mexico the equivalent of 8.6% of total GNP, a sum greater than bank bailouts in any other country in recent years. The Comisión Nacional Bancaria made this information public in a meeting with bankers in New York in late January, 1997. Alicia Salgado, "Subió a 212 mil millones el costo del recate bancario", El Financiero, January 28, 1997,p. 3.

[24] An important economic analysis which proposes ways of getting out of the crisis is Macario Schettino, Para reconstruir México, Mexico, Ed. Oceano, 1996.

[25] For example, Jorge Castañeda, The Mexican Crash, New York, 1996.

[26] It should be underlined that the $ 13 billion dollar credits extended to Mexico by the IMF between 1995 and 1996 were the largest in the history of that institution.

[27] Moíses Naím, "Latin America the Morning After," Foreign Affairs, (July/August, 1995), 74,4, p.56

[28] Latin Finance, March, 1997.

[29] See article by Manuel Durán "Alarma a inversionistas la deuda de Cemex" El Financiero, July 5, 1997, p.13.

[30] El Financiero, January 29, 1997.

[31] See the articles by Martin Werner, Director of Public Credit of the Mexican government published in La Jornada, August 14 and 15, 1997.

[32] In 1997 amortizations due on external debt in 1997 surpass $ 40 billion, of which 60% is private debt: Banco Nacional de México,Examen de situación económica de México (June, 1997) p. 240.