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MEXICO

MEXICO

1.	7/1/69	Victor Urquidi, President, College of Mexico
	7/18/69 (Aspen - Eisen. Ex.)	Jesus de la Fuente, Coordinator, Agricultural Business Program, Instituto Technologico de Monterrey
	1/21/70	Alfredo Gutierrez Kirchner, son-in-law of Minister of Finance of Mexico Ortiz Mena
	12/5/69 (Mex. City)	Jesus Rodriguez y Rodriguez, Under-Secretary, Finance Ministry
2.	12/6/69 (Mex. City)	Economists: Mario Ramon Beteta, Director of Credit, Ministry of Finance Rafael Izquierdo, Advisor to the Minister of Finance Alfredo Navarrete, Assistant Director of Nacional Financiera Leopoldo Solis, Director of Economic Research, Bank of Mexico Jesus Silva-Herzog, Technical Director, Bank of Mexico Eliseo Mendoza, Director of Economic and Demographic Studies, College of Mexico
	12/6/69 (Mex. City)	Bernardo Quintana, President, Associated Civil Engineers (visit to Anthropological Museum) Dr. Arturo Romano, Director of the Museum
	12/6/69 (Mex. City)	Housing visit: Dr. Pio Alcantara, Director of Housing Services, Social Security Institute Marcelo Javelly, Director, FOVI (Housing Trust Fund of the Bank of Mexico
	12/6/69 (Mex. City)	Jose Hernandez Delgado, Director General, Nacional Financiera
	12/6/69 (Mex. City)	Cocktails - Mexican Bankers Association: Rolando Vega, President of Mexican Bankers Association; General Director, Banco de Industria y Comercio Jose Luis Pastrana, Vice President, Mexican Bankers Association; Director, Financeria del Norte Antonio Armendariz, Director, National Bank for Foreign Trade Jesus Robles Martinez, General Director, National Bank for Public Works and Services Emilio Alanis Patino, Deputy Director, National Agricultural Bank Miguel Mancera, Foreign Manager, Bank of Mexico Antonio Enriquez Savignac, Advisor, Bank of Mexico Agustin Legorreta, General Director, Banco Nacional de Mexico Manuel Espinosa Iglesias, General Director, Banco de Comercio Jose Antonio Cesar, General Director, Banco de Londres y Mexico
	12/7/69 (Cuernavaca)	Emilio Riva Palacio, Governor, Cuernavaca, Morelos

3.	12/8/69 (Mex. City)	President Gustavo Diaz Ordaz Antonio Ortiz Mena, Minister of Finance
4.	12/8/69 (Mex. City)	Ortiz Mena, Minister of Finance
5.	"	Don Rodrigo Gomez, Director General, Bank of Mexico
	4/16/70	Jesus Silva-Herzog, Technical Director, Bank of Mexico Rafael Izquierdo, Economic Advisor to the Minister of Finance
	9/8/70	Ambassador Hugo Margain
6.	9/22/70 (Copen.)	Hugo B. Margain, Minsiter of Finance Fernandez Hurtado, President, Bank of Mexico Mario Ramon Beteta, Director of Public Credit Alfredo Navarrete, Assistant Director, Nacional Financeira
7.	2/17/71	Guillermo Martinez Dominguez, Director General, Nacional Financiera Manuel Calderon de la Barca, Deputy Director, Nacional Financiera
8.	7/26/71	Rafael Izquierdo, Economic Advisor to the Minister of Finance Octabio Diaz de Leon, head of the Public Investment Directorate Industrial Section, Ministry of the Presidency
9.	9/27/71	Hugo B. Margain, Minister of Finance Fernando Hurtado, Director General, Bank of Mexico Silva Herzog, Director General de Credito Secretaria de Hacienda Rafael Izquierdo, Economic Adviser to the Minister of Finance
	2/9/72	Julian Rodriguez Adame, President, International Cotton Council (former Minister of Agriculture) -- Memo in Memos for Record File
10.	6/2/72	Hugo B. Margain, Minister of Finance Ambassador Jose Juan de Olloqui Julian Saenez Hinojosa, Counsellor of the Embassy Rafael Izquierdo, Economic Adviser to the Minister of Finance Orive Alba, General Director, Las Truchas Steel Co.
11.	6/15/72	President Luis Echeverria Emilio Rabasa, Secretary of Foreign Relations Ambassador Jose Juan de Olloqui
12.	6/19/72	Victor Urquidi, President, College of Mexico
13.	9/25/72	Hugo B. Margain, Minister of Finance Ernesto Fernandez Hurtado, Director General, Bank of Mexico Miguel de la Madrid, Director of Credit, Secretariat of Finance and Public Credit Rafael Izquierdo, Advisor, Bank of Mexico Alfredo Phillips, Manager for International Organizations, Bank of Mex.
14.	12/11/72	Emilio O. Rabasa, Minister of Foreign Relations Ambassador J. J. Olloqui

15. 3/1/73 Dr. Jose Juan de Olloqui, Ambassador of Mexico

7/20/73 Dr. Jose Juan de Olloqui, Ambassador of Mexico (Lunch at Bank)

16. 9/26/73 (Nairobi) Jose Lopez Portillo, Minister of Finance and Public Credit
Miguel de la Madrid, Director General for Credit, Secretariat for Finance and Public Credit
Rafael Izquierdo, Adviser to the Minister of Finance and Public Credit

17. 9/28/74 Ernesto Fernandez Hurtado, Director General, Bank of Mexico
Alfredo Phillips Olmedo, Manager, Bank of Mexico

6/12-13/75 (Paris-Dev. Cte.) Ernesto Fernandez Hurtado, Director General, Bank of Mexico

18. 9/2/75 Mario Ramon Beteta, Deputy Minister of Finance
Ernesto Fernandez Hurtado, Director General, Bank of Mexico
Gustavo Romero Kolbeck, Director General, Nacional Financiera, S.A.

1/6-10/76 (Dev.Cte., Kingston) Fernandez Hurtado, General Director, Bank of Mexico

9/25/76 President-elect Lopez Portillo (At Embassy)
Ambassador Olloqui

19. 10/5/76 (Manila) Ernesto Fernandez Hurtado, Director General, Banco de Mexico
Gustavo Romero Kolbeck, Director, Nacional Financiera
Alfredo Phillips, Deputy Director, Banco de Mexico
Pedro Galacia, Manager, Nacional Financiera
Eduardo Pesqueira, Assistant Director of Credit, Secretariat of Finance and Public Credit

12/15/76 (New York) Roberto de Rosenzweig-Diaz, Ambassador to the UN (At luncheon hosted by Amb. Akhund of Pakistan)

20. 2/9/77 Julio Rodolfo Moctezuma Cid, Secretary for Finance
Gustavo Romero Kolbeck, Governor of the Central Bank
Leopoldo Solis, Bank of Mexico
Alfredo Phillips-Olmedo, Bank of Mexico
Miguel de la Madrid, Deputy Minister of Finance

2/15/77 President Lopez Portillo (Reception at Mexican Embassy)

21. 2/17/77 President Lopez Portillo
Fernando Solana, Secretary of Commerce
Rossell de la Lama, Secretary of tourism
Miguel de la Madrid, Sub-secretary of Finance
Rafael Izquierdo, Advisor to the President
Alfredo Phillips, Director of INternationa Relations, Bank of Mexico

5/26/77 Ambassador Hugo Margain (host at dinner honoring Ambassador-designate Patrick Lucey

	6/6-9/77 (Bellagio, Denmark)	Dr. Carmen A. Miro, Chairman, International Review Group of Social Science Research on Population and Development Joseph E. Potter, Staff Associate International Review Group of Social Science Research on Population and Development
22.	9/29/77	Julio Rodolfo Moctezuma Cid, Minister of Finance Gustavo Romero Kolbeck, Director General, Bank of Mexico David Ibarra, Director General, Nacional Financiera, S.A. Gilberto Escobedo, Director General of Credit, Secretariat of Finance and Public Credit
	10/10/77	Leopoldo Solis - Research Advisory Panel on Income Distribution and Employment
23.	2/8/78	Rafael Izquierdo, Economic Advisor to the President
24.	9/22/78	Annual Meeting Delegation: David Ibarra, Finance Minister Gustavo Romero Kolbeck, Director-General, Bank of Mexico Jorge Espinosa de los Reyes, Dir.Gen.,Nacional Financiera Jesus Silva Herzog, Dir.of Public Credit, Min. of Finance Pedro Galicia, Nacional Financiera Eduardo Pesqueira, Executive Director
25.	1/16-21/79 (Mexico)	RMcN Notes (Filed in RMcN office)
	1/18	Presentation of program for development of Industrial Ports Mr. Julio Rodolfo Moctezuma Pesqueira, Echaverria (Director of PEMEX)
	1/18	Visit to PEMEX
	1/19	Meeting with Economists: Messrs. Victor Urquidi Emilio Rosenbleuth Rudolfo Stavenhagen Samuel del Villar Pablo Latapi Luis Unikel Javier Marquez Cabrera, Saragosa, Leopoldo Solis
	1/19	Luncheon discussion with Businessmen: C.Abedrop, Pres, Mexican Bankers Assn. Bernardo Quintana, Pres., ICA Group David Garza Laguera, Pres, VISA Group Alejandro Alvarez Guerrero, Dir. Gen. MASECA Jeronimo Arango, Dir.Gen. AURRERA Group L.Guzman de Alba, Pres, CANCAMIN M.Espinosa Iglesias, Pres.BANCOMER Guillermo de Zamacona, Pres. CONCANACO Juan Manuel Martinez Gomea, Pres CANACINTRA L.Legorreta, Director Gen. BANAMEX Jesus Silva Herzog, Coordinator Eduardo Pesqueira, Eduardo Mayobre (Coordinators)

1/16-21/79
(Mexico)

1/19 Meeting with Finance Minister David Ibarra and senior members of financial team

1/19 Meeting with members of economic cabinet:
Ricardo Garcia Sainz, Min for Programming & Budget
Alfonso Cebreros, Dep Min for " "
Jose Andres de Oteyza, Min for Govt Properties & Industrial Dev.
Pedro Ramirez Vasquez, Min for Human settlements
Felix Valdes, Dep Min. for " "
Francisco Merino Rabago, Min for Agric. & water resources
Americo Villareal, Dep. Min for " "
Navarro Ayala, Adviser to the Min. for "

1/19 Meeting with President Lopez Portillo

26. 3/16/79 Rafael Izquierdo, Economic Adviser to the President

9/21/79 Rafael Izquierdo, Economic Adviser to the President

27. 9/29/79 annual meeting
David Ibarra Munoz, Secretary of Finance & Public Credit
Gustavo Romero Kolbeck, Dir.Gen., Banco de Mexico
Jorge Espinosa de los Reyes, Gen. Dir, Nacional Financiera, S.A.
Oscar Levin Coppel, Director General of Credit.

28. 2/8/80 Alfredo Phillips, Deputy Director, Bank of Mexico and Chairman, Group of 24

29. 2/29/80 Eduardo Pesqueira, Coordinator, Ministry of Programming and Budget

30. 10/14/80 Annual Meeting
David Ibarra, Minister of Finance
Espinosa de los Reyes, Dir.Gen.,Nacional Financiera SA
Pedro Galicia, Gen Mgr., Official Financing, NAFINSA
Oscar Levin, Dir.Gen. of Credit, Min of Finance
Alfredo Phillips, Div. Mgr., International Org, Bank of Mexico
Juan Foncerrada, ED's office (Adviser)

31. 11/17/80 Eduardo Pesqueira, Coordinator, Ministry of Programming and Budget

32. 12/10/80
David Ibarra Munoz, Secretary of Finance
Alfredo Phillips, Bank of Mexico
Gustavo Romero Kolbeck, Governor, Bank of Mexico

33. 3/9/81 David Ibarra Munoz, Secretary of Finance & Public Credit
(Mem too filed: Development Cmte)

3/13/81 Rafael Izquierdo, Economic Adviser to the President

6/9/81 President Lopez Portillo (meeting at Blair House)

32 missing

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FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Mr McNamara
to see please
Lee 7/2/69

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: July 2, 1969

FROM: Gerald Alter *GA*

SUBJECT: Meeting of Mr. McNamara with the President of the College of Mexico, Mr. Víctor Urquidi

Mr. McNamara met with Mr. Víctor Urquidi, President of the College of Mexico, on Tuesday, July 1. Messrs. Alter and Clark were also present. Mr. Urquidi described the program of the College of Mexico, particularly in the demographic field, and requested the support of the Bank for the Latin American Regional Conference on Population to be held in Mexico City August 17-22, 1970. Mr. McNamara indicated that he was willing, in view of our special interest in population problems in Latin America, to consider Bank support for this Conference as an exception to our general practice not to provide financial support for international conferences. Such support would be particularly justified, in Mr. McNamara's view, if Mr. Urquidi could use the offer of Bank support as a means of getting support from other institutions, particularly the Inter-American Development Bank, which should be taking a greater initiative in the population field in Latin America. Mr. McNamara indicated that we would be in touch with Mr. Urquidi with a formal response to his request.

After the meeting with Mr. Urquidi, Mr. McNamara decided that we should write a letter to Mr. Urquidi offering Bank financial support on a basis which would match the contribution of the Inter-American Development Bank, up to a maximum of $10,000. For internal budgetary purposes within the Bank, this would be handled as an allocation from the contingency fund to the Information and Public Affairs Department.

cc: Mr. Adler
Mr. Clark
Mr. Chadenet
Mr. Zaidan/Hawkins.

President has seen

FORM NO. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 19, 1969

FROM: Gerald Alter *GA*

SUBJECT: Your meeting with Mr. Víctor Urquidi

You have agreed to see Mr. Víctor Urquidi, President of the College of Mexico, at 5:00 p.m. Tuesday, July 1. Mr. Urquidi, who was in the early days of the Bank a member of its staff and subsequently served as an economic advisor to Minister of Finance Ortiz Mena, is one of the leading Latin American economists and is now President of the only graduate school of economics in Mexico. The College of Mexico has established a center for the study of demographic problems; a note, which is attached, has been prepared by Mr. Hawkins on this center.

Mr. Urquidi is interested in discussing with you the whole problem of population growth, particularly in Latin America. He would also like Bank support for a Latin American Regional Conference on Population which is to be held in Mexico City August 17-22, 1970, under the auspices of the International Union for the Scientific Study of Population, the Economic Commission for Latin America, the Latin American Demographic Center and his own University. They already have obtained financial support from the Mexican Government and are establishing contact with the Population Council, the Rockefeller and Ford Foundations, the Social Science Research Council and other organizations interested in this field. In addition, they are seeking support from AID, IDB and the World Bank.

I have discussed this request for support with Messrs. Chadenet, Stevenson and Hawkins. We agree that the Latin American Regional Conference on Population is worthy of support from the Bank, in view of the leading role which is being played by the College of Mexico in population work in Latin America. However, the Bank has always been reluctant to make financial contributions for international conferences. I have discussed this matter with Mr. Adler, who knows of only one precedent of Bank financial support for a conference, a contribution to support a meeting of the International Economic Association. Mr. Adler agrees with me that in view of our special interest in population matters, you may wish to consider a contribution from contingency funds, perhaps $5,000, for this Conference. If you are reluctant to do so, you may still say that you would be willing to consider such a contribution if Mr. Urquidi finds he is unable (despite your moral support) to raise the required finances from other sources. I understand that his total budget for the Conference is $50,000, with $10,000 already promised by the Mexican Government.

Attachment.

President has seen

El Colegio de Mexico - Activities in the Population Field

El Colegio de Mexico (the only graduate school of economics in Mexico) established a Center of Economic and Demographic Studies in 1964 with the double aim of promoting a postgraduate program in the fields of economics and demography and of carrying out research in these areas. The work of the Center has been attracting considerable attention since then and it is now regarded as one of the leading institutions in Latin America. Demography has been a neglected subject in Latin America with very little attention at either the graduate or postgraduate level. (The other specialist institution for demographic studies is CELADE - the Latin American Center for Demographic Studies, set up by the United Nations in Santiago. This is a training and research center which is doing excellent work but which cannot offer a degree course.) The importance of the Mexico Center is firstly that it is part of an independent academic institution of some distinction, and secondly, it has developed without overt outside support and is thus able to promote a distinctly Mexican approach to population questions. However, it could not have developed without the financial backing of the Ford and Rockefeller Foundations. The policy of the Center has been to emphasize this nationalistic independence in an area where foreign assistance is not always welcome.

Its program of investigation and research is planned to cover the following:- (a) to analyze the demographic variables of Mexico, (b) to investigate the factors behind the economic growth of Mexico and (c) to study the relationships between population increase and economic development. This research also has the aim of involving demographers, economists and sociologists so as to equip them for an appreciation of the demographic factors related to their subjects. Apart from the general areas already mentioned, the Center has more recently begun to investigate questions of urban development, higher education, regional analysis and development, technical change, production functions and patterns of consumption. The Center also publishes a journal, Demographia y Economia, which first appeared in 1967. This shows signs of becoming a major source for the dissemination of the results of economic and demographic research.

The work of the Center does not explicitly enter into the field of population control and family planning; the emphasis has been strictly upon the demographic and economic aspects. Nevertheless, many of the subjects taken up are directly related to population planning and population policies. The development of the work represents one aspect of the changing situation in Mexico, which is making it increasingly possible to discuss the population aspects of development in a manner which would not have been feasible 10 years ago. The relative independence of the Center and of the Colegio de Mexico from the Mexican Government has been one reason for its concentration on strict academic subjects, and it has carefully avoided being involved in issues as sensitive as population policy.

E.K. Hawkins

May 26, 1969

Population Studies Division
Economics Department

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Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 11, 1969

FROM: E. Peter Wright EPW

SUBJECT: Mexico - Mr. McNamara's Meeting with Economists

A group of Mexican economists joined Mr. McNamara at the Maria Isabel Hotel at 4 p.m. on Saturday, December 6, for a discussion of Mexico's economic problems. The group consisted of Mario Ramon Beteta (Director of Credit, Ministry of Finance), Rafael Izquierdo (Advisor to the Minister of Finance), Alfredo Navarrete (Assistant Director of Nacional Financiera), Leopoldo Solis (Director of Economic Research, Bank of Mexico), Jesus Silva-Herzog (Technical Director, Bank of Mexico) and Eliseo Mendoza (Director of Economic and Demographic Studies, College of Mexico). Dr. Machado and Mr. Wright also attended the meeting.

Mr. McNamara explained to the group his purpose in visiting Mexico and commented on Mexico's remarkable achievement in maintaining a high rate of economic growth with stability over a long period. At the same time it was evident that Mexico faced difficult problems in the future as a result of social tensions created by the polarization of income. Mexico also had a very high level of external indebtedness and was experiencing pressure on its balance of payments. Mr. McNamara wanted to know how the World Bank could best be of help to Mexico in this situation. He recognized that the Bank's contribution to the financing of Mexican development in the past had been a marginal one, and it would no doubt continue to be so, but he wanted to maintain the level of Bank lending and, if possible increase it.

Mr. Izquierdo observed that public agencies in Mexico had benefitted greatly from contact with the World Bank and other external lending agencies. Individual officials had also benefitted from the training they had received from contact with World Bank missions both at the general economic and at the sector levels. In short, the World Bank's contribution to Mexican development was important because of its quality as well as in terms of the volume of lending. Mr. Beteta also paid a tribute to the help Mexico had received from the Bank at the staff level and to the objectivity of Bank reports, which was greatly valued in Mexico. Mr. Navarrete said that he would like to see more emphasis put in these reports on persuasion and less on prescription. Mr. McNamara said that the Bank was trying to regularize its economic missions and carry out more sector missions; Mexico was one of the countries for which in future there would be regular annual economic missions.

Mr. Beteta brought up the subject of the Bank's approach to population control. Was it true that the World Bank was stressing this to the point of linking the amount of its lending with the action countries took to deal with the population problem? This was a delicate subject

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in Mexico. In spite of past feuds with the Catholic Church, the State now had good relations with the Church, and any open and spectacular treatment of population control would be politically dangerous. The Government preferred the indirect approach - for example, by working through the social security institutions without publicly attacking the problem.

Mr. McNamara said that the rapid growth of population posed both a personal and political problem and a serious economic and social problem. Even in countries in which a political decision had been taken to support family planning, as in India, it would take two or three decades to achieve a significant impact on the rate of population growth. This was partly because of the difficulties of administering a family planning program and partly because present knowledge of contraceptive measures still fell far short of what was needed, and it would probably take another five to ten years to obtain optimum results. Present expenditures on research in reproductive biology would need to be multiplied several times over. Mr. McNamara said that his task was to draw attention to the problem; it was for Governments to act. The World Bank could not do the job itself or insist on countries doing it. It was in any case quite inadequately equipped to help, and so far it had only touched the fringes of the problem. Several countries had nevertheless approached the Bank for help, including India, Indonesia and Jamaica, and the previous month a meeting of the Indian Consortium had been held in Stockholm to consider what could be done to help the Indian Government in its family planning program.

In response to Mr. McNamara's statement, Mr. Izquierdo commented that the attitude of the Church had to change. Mexico had to alter the mix of its development policies, and the Government needed the help of the Church in bringing about a shift of emphasis. Mr. Mendoza observed at this point that religion appeared to be one of the least important factors in determining the attitudes of people in Mexico towards birth control. It was important that more research should be carried out into these attitudes.

The conversation then turned to Mexico's past development experience, and Mr. Solis outlined the different stages in Mexico's economic growth over the past twenty years, a period during which a consistently high rate of overall economic growth (around 7 percent a year in real terms) had been maintained. During the first stage in the late 1940s and early

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1950s, a major stimulus to expansion had come through agriculture where production grew faster than GNP (7½ percent a year up to the mid-1950s). Growth during this period was export-oriented and received a boost from the Korean War. Public expenditure policy meanwhile was directed towards creating a greatly improved infrastructure, particularly in transport and irrigation. During the second stage, starting in the mid-1950s, emphasis was shifted to industry, and the rate of growth of both agricultural production and exports declined. This was a period of financial boom, with the liabilities of the banking system increasing 2½ times as fast as the growth of GNP. Private investment was supported by a high rate of public investment, which enabled good profits to be made in industry. Now Mexico was entering on a new stage of development, with the emphasis shifting back to export promotion and greater public investment in agriculture. Agricultural profits had been squeezed by government pricing policies and the high cost of inputs, and it was essential that the prices of inputs should be reduced (e.g. fertilizers, insecticides, machinery) by making production more competitive. Emphasis should also be given to rationalizing land use in existing irrigation districts.

Mr. Navarrete and Mr. Mendoza also commented on the need for the Government to do more to help the 20 million people in the rural areas who were living close to or below the subsistence level. They agreed with the need to reduce the costs of agricultural inputs and felt that more should be done to reduce the cost of credit and to rationalize processing industries. Mr. Navarrete urged the need to intensify agricultural research, with particular reference to the requirements of the subsistence sector, and Mr. McNamara said that the World Bank would be interested in helping Mexico to carry out a well-conceived research program. He pointed out, however, that better research would be of little value unless the farmers had the incentives to apply it. There was general agreement amongst the group on this point and on the need to organize the public sector more effectively for the task of agricultural development. Mr. Izquierdo said that the Government had to face up to the problem of the 50 percent of the agricultural population living below the subsistence level and to set up adequate administrative machinery, which did not at present exist, to deal with it.

Mr. Navarrete said that, while Mexico valued the assistance it had received from the World Bank, the terms of Bank lending were rather hard, and he wondered whether Mexico might not receive some assistance in future from IDA. Mr. McNamara said that there was no chance of this at all and pointed out the extent to which the Bank's lending rate was already being subsidized. If the Bank were currently to charge a rate that would enable it to make a profit on its lending to Mexico, this rate would have to be around 10½ percent. During the last fiscal year the

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World Bank had managed to raise $1.2 billion at an average cost of 6.46 percent, but present borrowing rates were now much higher than this (in Germany, for instance, it would probably cost the Bank about 7.85 percent to borrow). Nevertheless, Mr. McNamara said that he was trying to hold down the Bank's interest rate, while efforts were being made to tap new sources of funds - for example, in the oil countries of the Middle East and by selling bonds in Japan.

Mr. Navarrete emphasized the importance to Mexico of the Bank financing more local costs. Mr. McNamara recognized this point, but said that the Bank's Articles of Agreement imposed certain limitations on local cost financing, and this had created difficulties in the Board.

Mr. McNamara enquired about what was being done in Mexico to mobilize larger government revenues. In reply, Mr. Izquierdo said that the number one fiscal problem in Mexico was to deal with the large financial deficit of the State railways. No agreement had yet been reached within the Government on new tax measures. The President had not been ready to accept the value-added tax, and the introduction of this tax had therefore been postponed for a year. The Ministry of Finance had been proposing a considerable tightening up of tax deductions allowed for business purposes (e.g. on travel abroad, use of aeroplanes, etc.), but these proposals had not been accepted. The collection of income tax had been complicated by the widespread use of bearer shares, while the Government had been reluctant to impose additional taxes on foreign bond holders. In short, nothing very effective was being done at present to raise additional taxation, and if the necessary change in attitudes was to be brought about, it was essential that the farmers should press for more taxation to provide the funds required for additional public expenditures in rural areas. Mr. Beteta confirmed that the Government was not at present contemplating any action to raise additional taxes, although all the economists present at the meeting appeared to be in agreement on the need for such action.

Mr. McNamara concluded the meeting by saying that the views expressed tended generally to confirm what he had been told by his staff about the economic situation in Mexico - views which were reflected in the latest Bank economic report.

cc: Messrs. McNamara
Knapp
Aldewereld
Friedman
Alter
Clark
Evans

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FORM No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 11, 1969

FROM: E. Peter Wright EPW

SUBJECT: Mexico - Mr. McNamara's Meeting with President Diaz Ordaz

Mr. McNamara, accompanied by the Finance Minister, called on President Diaz Ordaz at his residonce in Mexico City (Los Pinos) at 11 a.m. on Monday, December 8. The meeting lasted approximately one hour and was also attended by Dr. Machado and Mr. Wright. Dr. Machado acted as interpreter.

The President welcomed Mr. McNamara and enquired about his visit to the State of Morelos on the previous day. Mr. McNamara in reply thanked the President for the warm welcome he had received in Mexico. His principal purpose in coming to the country had been to find out from the Mexican authorities what the World Bank might be able to do in future to assist Mexico's development. At the same time, he was interested in hearing more about how the "miracle" of Mexican development had been achieved. Mr. McNamara said that he had been particularly impressed by his visit to the Anthropological Museum, which embodied the national consciousness of a culture and history extending over 2,500 years. Now in Mexico, as in other countries including the United States, new social tensions were evident, and a change in the mix of development policies would be required to deal with them. Mr. McNamara suggested that there would be need in these circumstances for increased government revenues and for the exploitation of new sources of income, especially those which would help to strengthen the balance of payments, and he referred in this latter connection to the possibilities for the development of tourism, fisheries and forestry, which the Finance Minister had been discussing with him earlier in the morning. He also stressed the importance of doing more to raise the standards of the poorer farmers.

President Diaz Ordaz said that Mexico's economic development was no miracle. At one time Mexico had been identified with the sleeping Indian, perhaps because it did not have control over the development of its resources. Now the country had woken up, and millions of people were working together to achieve common goals. Mexico greatly valued the important contribution which the World Bank had made to its development, and Mr. McNamara could rest assured that any money lent by the Bank would be well used, and that resources would not be wasted. Mexico for its part was trying to make a modest

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contribution to the development of other countries in the area, particularly in Central America. This was partly a matter of self-interest, since it helped, for example, in the promotion of Mexico's exports. Nevertheless, Mexico was regarded by these countries as an Aztec imperialist power and was careful therefore not to press itself on them more than they wanted, leaving it for them to decide the basis on which Mexican enterprises should participate in carrying out projects of common interest and being ready to withdraw at any time if Mexican participation is no longer welcome. The President added that one of the major problems facing the smaller countries in Latin America was to find the resources needed for pre-investment studies.

The President stressed the importance of Mexico's relations with the United States and its interest in working with the United States and other countries in helping to promote world economic development. He cited as an example the production of new wheat strains in Mexico which were now contributing to agricultural expansion in India, Pakistan and other developing countries.

Turning to Mexico's own development, the President said that he agreed with Mr. McNamara's diagnosis of the problems (he did not, however, take up Mr. McNamara's suggestion that ways had to be found to increase government revenues). Mexico had barely begun to exploit its resources in fisheries, forestry and tourism. On the political front, just as monarchies and aristocracies had given way in the past to new systems of government, so now new forms of democratic institutions had to be evolved to satisfy people's aspirations. Mexico's development had been based on political and economic stability, and it was extremely important to maintain continuity of government policies in future.

Mr. McNamara enquired about the prospects for the creation of a common market in Latin America. President Diaz Ordaz said that he was not very optimistic. One of the main problems was lack of political stability in other countries in Latin America which made it very difficult to hold them to their undertakings (the President mentioned as an example Argentina and the successive Governments of Presidents Frondizi, Illia and Ongania). The Central American countries had shown the way to the other countries of LAFTA (ALALC in Spanish) by establishing their own common market, and although the recent conflict between El Salvador and Honduras had been a setback to progress, it had shown that countries in the area could not afford to fight each other.

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A major difficulty in establishing a common market for all Latin America lay in the fact that the economies of the different countries were similar, and there was little trade between them. Mexico had nevertheless achieved a substantial increase in its exports of manufactures to other LAFTA countries and now had a substantial surplus in its trade with them, but this could not continue indefinitely. It was very important for the Latin American countries to specialize in producing the things for which they were best equipped. It was also important to establish a definite timetable for the steps to be taken towards the establishment of a common market and to stick to it. This had been attempted in the past, but the steps had not been well thought out, and the targets had been changed.

The meeting concluded, as it had begun, on a very cordial note with an exchange of compliments between the President and Mr. McNamara.

cc: Messrs. McNamara
Knapp
Aldewereld
Alter
Clark
Machado

4

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: December 11, 1969

FROM: E. Peter Wright EPW

SUBJECT: Mexico - Mr. McNamara's Meeting with the Finance Minister

Mr. McNamara called on the Finance Minister, Mr. Ortiz Mena, at his office in the Palacio Nacional in Mexico City at 10 a.m. on Monday, December 8. Dr. Machado and Mr. Wright accompanied him. Further discussions took place between Mr. McNamara and the Finance Minister the same morning on the way to and from the meeting with President Diaz Ordaz. This memorandum records the main points made by the Finance Minister in the course of the morning's conversations.

Mr. McNamara began by emphasizing the World Bank's interest in maintaining its lending to Mexico at a high level and suggested that it would be helpful from this point of view if the Mexican Government could prepare long-term development programs, even if only rough ones, for sectors which they considered appropriate for future Bank financing. The Finance Minister did not respond directly to this suggestion, but proceeded to outline in a rather random fashion some of the Government's ideas for increasing income from tourism, forestry and fisheries, in all of which sectors he indicated that assistance from the World Bank would be welcome. He spoke at some length about the plans for developing new resort areas in Baja California, on the Pacific coast in the States of Jalisco, Colima and Guerrero, in Oaxaca and in Yucatan, without however giving specific information about the magnitude of the investments proposed. He also referred to the projects for forest development in Guerrero and other areas and to the possibilities of expanding fisheries, particularly shrimp fishing in the lagoons along both the Pacific and Gulf coasts.

In response to a question from Mr. McNamara, the Finance Minister agreed that there was limited scope for increasing income from agriculture in the central part of Mexico, where most of the rural population was, and he said that, in order to create more income and employment in rural areas, the Government was giving particular attention to small-scale village works and to the encouragement of small-scale industries, of which carpet manufacturing was cited as an example. At the same time, the Finance Minister pointed out, the rural population could be helped by changes in government pricing policies which tended to be biassed in favor of the towns. For example, consumer prices for sugar in Mexico were amongst the lowest in the world, and the Government

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was proposing to lift controls from prices of refined sugar while continuing to control prices of the cruder varieties of sugar consumed by poorer people. The resulting price increase would be of special benefit to farmers in Morelos, which Mr. McNamara had visited on the previous day. Similarly, farmers could be helped by reductions in prices of machinery, fertilisers and other inputs which could be brought about by more efficient domestic manufacture.

The Minister attached considerable importance to improving the efficiency of Mexican industry generally and to encouraging production oriented towards export markets. He mentioned that automobile prices in Mexico were about 50 percent higher than in the industrialized countries; as the indigenous content was no more than 60 percent, this indicated that the costs of manufacturing automobile parts in Mexico were roughly double comparable foreign costs. The Government was going to insist in future that automobile manufacturers, in order to be able to obtain imports, must achieve comparable exports. Mr. McNamara mentioned in this connection a project of which he knew for manufacturing parts of automobile transmissions in Mexico for supply to North America. The Minister commented that Mexico had to look mainly to markets outside Latin America, since the larger Latin American countries preferred to have their own automobile plants, and it had proved very difficult to work out effective arrangements for specialization between them.

The conversation turned at one point on the need for increased government revenues. The Minister agreed that more tax revenues were badly needed, but because of the increase in the minimum wage in January and the introduction of a new labor law later in the year, the Government had postponed the introduction of the value-added tax until late in 1970. This tax, which would replace the present cascade system of sales taxes, was very important because it would not only directly increase revenues, but would also help in securing better administration of other taxes.

The only specific request which the Minister made to Mr. McNamara was for the help of the World Bank in carrying out a survey of the transport sector. The Minister expressed particular concern over the financial losses being incurred by the Mexican railways, mainly because of the uneconomic carriage of passengers (encouraged by low fares), badly structured freight tariffs and excess labor. The restructuring of the railway system would present a very difficult political problem, and it would be helpful to Mexico to have an objective study prepared by the Bank that could be placed before the new Administration when it took office in

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December 1970. The study should cover not only the railways, but also policies affecting other modes of transport such as roads, ports and civil aviation. A very good study of transport had been made by the Bank some years ago, and if a few experts from the Bank could bring this study up to date, the Mexican Government would be happy to provide counterparts to work with them. Mr. McNamara said that the problem on the Bank side was the shortage of staff in the Transport Projects Department, but he promised the Minister that he would have the possibilities explored on his return to Washington and let the Government know as soon as possible what the Bank would be able to do. It was desirable that the terms of reference for the study should be agreed well in advance.

cc: Messrs. McNamara
Knapp
Aldewereld
Alter
Clark
Knox
Machado

5

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 11, 1969

FROM: E. Peter Wright EPW

SUBJECT: Mexico - Mr. McNamara's Meeting with the Bank of Mexico

Mr. McNamara called on Don Rodrigo Gomez, Director General of the Bank of Mexico, at 9 a.m. on Monday, December 8. Dr. Machado and Mr. Wright were also present.

Mr. McNamara, after commenting briefly on Mexico's remarkable economic progress and the problems created by the polarization of income, said that he would welcome Mr. Gomez's views on how the Bank could best help Mexico in future.

Mr. Gomez began with a reference to the poor conditions under which many people in Mexico lived and said that there was particularly urgent need for better housing in the cities, which the Government did not have enough funds to provide. Mr. McNamara reminded Mr. Gomez that the World Bank did not finance housing, though this policy might be reconsidered at some future date if there was evidence that lack of adequate housing, as presumably in Mexico City, adversely affected people's capacity to work.

Mr. Gomez then mentioned ports as a sector in which Bank assistance would be welcome. Port administration was weak, and there was a shortage of modern equipment.

The conversation then ranged over familiar ground - the importance of increasing agricultural income; the balance of payments problem and the need to increase foreign exchange earnings from exports and tourism; and the need for increased government revenues. Mr. Gomez pointed out that Mexico had been very successful in mobilizing private savings for development through the banking system, but it was still imperative to have additional taxation. No doubt a good deal could be achieved by improvements in tax administration. However, it was important not to stress this aspect too much, since it was used in Mexico, as in other Latin American countries, as an argument for not introducing new taxes.

Mr. McNamara enquired about the development of a capital market in Mexico. Mr. Gomez said that most business in Mexico was still

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family-oriented and suffered from lack of professional management, though this situation was gradually changing. High interest rates paid on bonds were another deterrent to the creation of a vigorous market in equities. Nevertheless, IFC could play a useful role in helping to build up confidence in the local capital market. A 15 percent equity participation carried with it the right to appoint a director to the Board, and it was important that this right should be exercised in order to keep an eye on things.

cc: Messrs. McNamara
Knapp
Aldewereld
Alter
Clark
Paterson
Machado

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: December 11, 1969

FROM: E. Peter Wright EPW

SUBJECT: Mexico - Mr. McNamara's Visit, December 1969

Mr. McNamara visited Mexico over the weekend from December 5 to December 8. He was accompanied by Dr. Machado and by Messrs. Clark, Wright and Christoffersen.

On Saturday, December 6, Mr. McNamara visited two housing schemes in Mexico City and the Archaeological Museum; he also took a short ride on the new Metro. He was entertained to lunch by the Directors General of the Bank of Mexico and Nacional Financiera and afterwards had a two-hour discussion with a group of Mexican economists (recorded in a separate memorandum). In the evening he attended a reception given by the President of the Mexican Bankers' Association.

On Sunday, December 7, the party was taken by car to Cuernavaca and visited the Tlaquiltenango Ejido (a sugar cooperative) and the museum in Tlaltiziapan, where General Zapata had his headquarters during the Revolution. Mr. McNamara was afterwards entertained to lunch by Finance Minister Ortiz Mena at his house in Cuernavaca. In the evening he attended a performance of the Ballet Folklorico.

At 11 a.m. on December 8, accompanied by the Finance Minister, Mr. McNamara called on President Diaz Ordaz at his residence in Mexico City. He also had meetings during the morning with the Finance Minister, the Director General of the Bank of Mexico and the Director General of Nacional Financiera. Dr. Machado and Mr. Wright were present at all these meetings, on which separate memoranda have been prepared (except for the meeting with Nacional Financiera, which was limited to an exchange of courtesies). The party returned to Washington the same afternoon.

cc: Messrs. McNamara
Knapp
Aldewereld
Alter
Clark
Machado

6

9/22

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: September 23, 1970

FROM: Enrique Lerdau

SUBJECT: Meeting of Mr. McNamara with the Delegation of Mexico on September 22, 1970

1. Present were:

Bank	Delegation
Mr. McNamara	Lic. Margain, Minister of Finance
Mr. Knapp	Lic. Fernandez Hurtado, President, Bank of Mexico
Mr. Machado	Lic. Beteta, Director of Public Credit
Mr. Gutierrez	
Mr. Lerdau	Dr. Navarrete, Manager, Nacional Financiera

2. The topics dealt with were:

(a) Mexico's social problems;
(b) External indebtedness and domestic finances;
(c) Export potential and U.S. trade policies;
(d) The need for a medium-term public investment program and its relevance for a Bank lending program;
(e) Bank contacts with President-elect Echevarria.

Social problems

3. Mr. McNamara indicated the Bank's concern for Mexico's growing social problems, with special reference to the approximately 15 million peasants who had been virtually bypassed by the country's progress. The Minister pointed to President-elect Echevarria's emphasis on this during his campaign. Government policies would have to take the peasant sector's needs into account; price support programs as well as the processing of agricultural goods were needed inter alia to increase peasant purchasing power. The link with public finances and export problems (see below) was evident.

Financial problems and external debt

4. The Minister stated that he thought that the past pattern of growing external idebtedness should not continue for long and that he intended to increase the reliance on domestic savings as against foreign capital to finance Mexico's public sector investments. For this he would act on three fronts:

President has seen

(a) Fiscal improvements;
(b) Domestic borrowing;
(c) Shifting to the private sector some investment functions presently in the public sector.

He also expressed the hope that the Bank would not aggravate the problem originating with the high debt service burden by over-emphasizing it in its published reports. Mr. McNamara stated that the Bank naturally was not interested in self-fulfilling prophecies and that what was really important was to have a meeting of the minds regarding the Government's future financial policies.

5. The Minister expressed great appreciation for the Bank's excellent transport report which, he said, would help substantially to improve the fiscal situation by making practical suggestions on how to reduce the railroad deficits. Mr. McNamara added that the Bank's interest in the transport report, in addition to these financial aspects - which were formidable - lay in its potential help towards framing a policy to improve the situation of the peasants. He hoped, moreover, that the report would be of use to the Government to define its investment and borrowing programs (see below).

6. The Minister indicated that higher revenues for the Government were indispensable but that he also wanted to exploit further the capacity of the Government to tap private sector savings by borrowing. He also linked the need for greater revenues to non-investment expenditures designed to increase the purchasing power of peasants, e.g. price support. He did not elaborate on item (c) in paragraph 4.

<u>Exports and Trade Policies</u>

7. Mr. McNamara stressed the need to improve Mexico's creditworthiness by a more vigorous effort to export manufactures and other non-traditional exports. He said that the experience of Taiwan and Korea showed what could be done by a policy of forcing industries to become efficient by denying them exorbitant protection. He suspected that in Mexico some exceedingly inefficient industries had been built up, making future industrialization and exports more difficult. The Minister agreed, saying that in Mexico the high protection might have been necessary in the past, but that the thrust of future policy should be towards more efficiency. However, he stressed that U.S. trade policy tended to frustrate many sound efforts and forced Mexico to search carefully for lines in which it could not only compete but also would not arouse protectionist measures in the U.S.

Cotton yarn was such a line, but past experience with tomatoes and meat had been disheartening. He expressed special concern about the present agitation by U.S. trade unions to have the "border industries" status 1/ revoked. Mr. McNamara agreed that the growing protectionist sentiment in the U.S. was most unfortunate, but thought that there was little either Mexico or he could do about it. It would be best, therefore, for Mexico to accept facts realistically and to seek for ways to resolve its problems regardless of U.S. trade policies. The keys for effective action seemed to him to be greater efficiency in Mexican industry - induced by a more rational protective system - and diversification of markets. For instance, prospects for meat in Europe seemed excellent. Mr. Knapp and Mr. Gutierrez added that the proposed industrial credit loan should make a useful contribution on both scores. Mr. Fernandez Hurtado expressed some skepticism about the prospects for industrial exports from Mexico but thought that Mexico's competitive advantages in three fields could be exploited much more than they had been. These fields were tourism, farm products (sugar, cotton) and handicrafts. For the latter, he cited European experience as an example of the potential for exports.

Programming

8. Mr. McNamara expressed the hope that a five-year Bank lending program could be worked out soon with the new Government, based on a public investment and financial plan which the Government would formulate. He said that the Bank's presently foreseeable activities in Mexico were well below what they should be, and the formulation of such a program would permit a substantial expansion. Bank staff time as well as the steps that needed to be taken by the borrowers had to be programmed and defined well in advance if lending at a sustained high level was to become possible. While no particular level of lending could be promised unreservedly in any event - Mexico's future economic policies and debt management would always influence individual lending decisions - at present lack of a Government program made our annual lending both relatively low and relatively unpredictable. The Minister agreed and said that the new Government would prepare a six-year program soon after taking office. The bases for this were laid already by the draft prepared by the outgoing Administration,

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1/ Under which U.S. firms - especially labor-intensive ones like electronics assembly enterprises - operate in Mexico and bring in their inputs free of duty while their output is shipped to the U.S. and U.S. tariffs are only applied to the value added in Mexico, rather than to the gross value of the import.

but of course some time would be needed by the new Government to formulate its own action program. He was, in any event, gratified by the Bank's position, and was sure that a satisfactory lending program could be developed.

Contacts with Mr. Echevarria

9. The Minister said that he would propose to the President-elect that Mr. Knapp should pay him a visit prior to Mr. Echevarria's expected meeting with Mr. McNamara. The Minister thought that the last week of October or the first week of November would be the most appropriate date for Mr. Knapp's visit. He would inform the Bank after consulting the President-elect.

cc: Mr. Knapp
Mr. Machado
Mr. Gutierrez
Mr. Wright
Mr. Nelson

ELerdau:pa.

7

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record **DATE:** March 2, 1971

FROM: Edgar Gutiérrez

SUBJECT: Meeting of Mr. McNamara with the Director General of Nacional Financiera, Mexico

1. On February 17, at 12:15 p.m., the new Director General of Nacional Financiera of Mexico, Lic. Guillermo Martínez Domínguez, called on Mr. McNamara. He was accompanied by Lic. Manuel Calderón de la Barca, recently-appointed Deputy Director of the same institution. Both of them were transferred by the new Administration from the Comisión Federal de Electricidad (CFE) to Nacional Financiera, as part of the institutional revamping announced by President Echeverría. Also present at the meeting were Mr. Lajous-Martínez, Executive Director for Mexico, Mr. Knapp and Mr. Gutiérrez.

2. The meeting was mainly a courtesy call. Lic. Martínez Domínguez pointed out the actions taken by the new Government to tackle the two problems on which the World Bank has expressed persistently its concern in recent years, namely fiscal deterioration and sluggishness of exports. He referred to the success in Congress of the recent package of legislation geared towards broadening the tax base (cut-down of exemptions, establishment of luxury taxes and stiffening of capital gains taxes, etc.). He then mentioned the Government's desire to implement, in the shortest possible time, the kind of institutional reforms that have been discussed between the Bank and Mexican officials in connection with the fiscal problem. Reference was specifically made to policy and administrative changes in railways and in the oil industry (PEMEX), and to adjustments in certain key agricultural prices (i.e. sugar) which have heavily burdened government finances in the past. The increase by 48 percent in sugar prices and the decision to adopt a program aimed toward financial self-support of the railways, were given as practical demonstrations of the willingness of the Government to eliminate distortions in the price mechanism that have produced serious misallocation of resources in the past.

3. Lic. Martínez Domínguez expressed appreciation regarding the recent transport survey undertaken by the Bank, as, for example, in connection with the changes now being made in the railway field. He also pointed out the importance of port improvement in increasing the efficiency of operations in foreign trade, and particularly in connection with the new drive towards export diversification. He stressed the significance of the new institutional set-up to handle the port programs (i.e., the Comisión Portuaria in the Presidency) and suggested the urgency of Bank involvement in the field in progressing along the lines suggested in the transport survey.

President has seen

4. After some elaboration on matters of general economic interest, Lic. Martínez Domínguez turned to the subject of industrial policies and the role of Nacional Financiera. Protection policies are now being revised and there is a widespread feeling in Government circles that much higher priority should be given to outward-looking industries. Lic. Martínez Domínguez wants Nacional Financiera to take a much more aggressive role in industrial diversification, with particular emphasis on the subject of increasing efficiency. Regional decentralization is the other objective and Nacional Financiera is now devising ways and means to attain a broader investment program across the country. He stated that his institution would be ready to cooperate in the context of the new operation for industrial financing, which is being explored by the Bank with the Mexican authorities.

5. Mr. McNamara expressed his appreciation for President Echeverría's strong views in his inaugural speech on the subjects of increasing efficiency of Mexican industry, income redistribution, unemployment, and rural poverty. He stated that the Bank was ready to offer its cooperation to programs and projects in these areas, on top of what is now being done in sectors where the Bank has been traditionally involved, such as power and highways. He said that the new operation for industrial financing should be clearly framed within a concept of efficiency and balance of payments relief. Mr. McNamara also expressed his satisfaction for the positive reaction of the Government to the transport survey, and particularly for the very constructive exchange of views, prior to the inauguration, between President Echeverría, Mr. Knapp and other Bank representatives. This frank exchange and the actions taken by the Government, point towards a considerably enlarged program for the years to come. However, Mr. McNamara expressed his concern about the size of the pipeline for the immediate years. Hard work is being done to finalize the second stage of the livestock project during FY 1971, but this will be about all in that fiscal year. FY 1972 involves a much larger program, but it will require intensive work to bring the arrangements on the different projects to fruition. With regard to industrial financing, Mr. McNamara stated that the matter is now being actively considered within the Bank on the basis of Mr. Baldwin's report and that a memo for discussion with the Mexican authorities would be made available shortly.

cc: Messrs. Knapp, Diamond, Knox, Nelson

Mr McNamara:
Please advise
LC 1/29

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Lief Christoffersen

DATE: January 29, 1971

FROM: R. Nelson RN

SUBJECT: Visit of Lic. Guillermo Martinez Dominguez, Mexico

1/29 OK

I request that a meeting of about one-half hour on February 17 with Mr. McNamara be scheduled for Lic. Guillermo Martinez Dominguez, the new head of Nacional Financiera in Mexico. He requested the meeting. We are also arranging for a meeting with Mr. Knapp as well as discussions at the departmental level.

The main topics which Lic. Martinez Dominguez wishes to discuss in the Bank are the Industrial Fund for which a Bank loan has been requested and the overall plan for Mexican borrowing from the Bank during the six-year period of the new Government. The discussions regarding the borrowing plan would be preliminary since the Government will not complete work on its investment program and borrowing plan until the end of March.

RNelson/eg

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP

Date Feb.16/71

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Robert S. McNamara	
President has seen	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

Remarks

My only comment on the attached memorandum is that I wouldn't want to start talking to the Mexicans about lending of $200 million in FY1972, before we review the new Country Program Paper. My guess is that we will want to reduce our large-scale power financing in Mexico in order to accommodate some of the new loan proposals - railways, industry, etc.

JBK

From J. Burke Knapp

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(through Mr. Knapp)

DATE: February 12, 1971

Pipeline

FROM: Edgar Gutierrez

SUBJECT: MEXICO: Briefing for Your Meeting with Lic. Martinez Dominguez (scheduled for 12:15 p.m. February 17)

1. Licenciado Martinez Dominguez, who had been dealing extensively with the Bank as head of the Federal Electricity Commission for the past six years, will be visiting the Bank for the first time on February 17 in his new capacity as head of Nacional Financiera. He will be accompanied by Lic. Manuel Calderon de la Barca, who had been Director of the Finance Department of the Federal Electricity Commission and has now become Deputy Director of Nacional Financiera. Nacional Financiera, the largest financial entity in Mexico as measured by assets or annual loan commitments, promotes and finances industrial enterprises both public and private. It also negotiates and administers most of the Government's foreign loans and is the borrower or co-borrower for all Bank loans.

2. Mr. Martinez Dominguez, whom you met in Mexico a year ago, is an energetic, driving individual who has close ties with President Echeverria both directly and through his brother, who has been Secretary General of the dominant Mexican political party and is now Minister for the Federal District. His current overriding objective is to revitalize Nacional Financiera, which had been relatively lethargic in the latter years of the long tenure of Hernandez Delgado. In this connection Martinez Dominguez is likely to seek a more active role for Nacional Financiera in dealing with the Bank and the Inter-American Bank than has been the case in recent years. However, the Ministry of Finance has long been our main point of contact with the Mexican Government, and Mr. Lajous has indicated that the Finance Minister wants to keep it this way and is writing to you on the subject. There is obviously something of a power struggle going on within the new Mexican Administration on this point, and we shall be keeping this in mind in the discussions we have with Martinez Dominguez before he meets you.

3. Mr. Martinez Dominguez has two main topics on the agenda for his visit to the Bank. One is to discuss the Bank's future lending in Mexico, and before he meets with you we shall be reviewing with him the status of the projects currently in the pipeline. The only project likely to come to the Board during the current fiscal year is a $70-75 million loan for livestock and agricultural credit. However, we would expect lending in FY 1972 to exceed $200 million, since another power sector loan (possibly around $125 million) will be due about a year from now, and two or three transport loans, including a loan for the railways, may result from the sector study undertaken by the Bank last year, which we are currently following up with the Mexicans. We should also be able to bring to the Board in FY 1972 the loan for tourist infrastructure on the Pacific Coast on which we have been working for the past two years. In addition, we are preparing a proposal for the creation of an Industrial Fund which we hope will result in a loan before the end of calendar year 1971 (see below).

4. We shall be ready to discuss these projects with Mr. Martinez Dominguez, but we would not propose to go further at this stage, since the Ministry of Finance in Mexico has indicated that it wants to complete work on a new public investment program before coming to the Bank or the IDB with specific proposals (possibly around the end of March). Meanwhile, in the draft Country Program Paper just distributed to the Economic Committee, we are recommending a substantial increase in the level of our lending to Mexico in view of the progress made by the new Administration in tackling the fiscal and balance of payments problems. However, the composition of this program in the years after 1972 is still very tentative.

5. The second major topic which Mr. Martinez Dominguez is likely to raise is the role of Nacional Financiera in connection with the new Industrial Fund, which would be focused on helping to reduce Mexico's current balance of payments problem by an expansion of exports and efficient, import substitutes. This project is still at a preliminary stage and the question of where the Fund should be located - specifically whether it should be a semi-autonomous entity within the framework of Nacional Financiera or alternatively in the Banco de Mexico - is currently a controversial one in Mexico. My suggestion, therefore, is that, rather than getting into a discussion of specifics relating to the Fund, you focus the discussion with Mr. Martinez Dominguez on major aspects of industrial policy. You might do this by referring to the emphasis in President Echeverria's inaugural speech on attacking balance of payments problems and industrial inefficiency and ask about the Government's policies and plans in the field of industry, including the role which Mr. Martinez Dominguez foresees for the new Fund. For your background I am attaching a paper by Mr. Bela Balassa on Trade Policy in Mexico which was prepared at the request of Nacional Financiera and the Foreign Commerce Bank and has been well received in Mexico. The paper outlines a series of actions for expanding industrial exports and promoting industrial efficiency by revamping Mexico's present system of export and import incentives (see particularly pages 28-29).

6. You may also like to bring up in the talk with Mr. Martinez Dominguez broader aspects of Government policy, in particular the interest and the thinking of the new Administration on the basic problems of rural poverty, urban unemployment and income redistribution. President Echeverria during his election campaign placed major emphasis on "keeping the revolution going" by helping the poorer sections of the rural population. However, he also took a strong position against compulsory family planning (though he is reported privately to have expressed an awareness of the demographic problem and to be willing to follow the present policy of permissiveness and unofficially support the private family planning efforts.)

Attachment

October 1970

TRADE POLICY IN MEXICO

Bela Balassa*

Growth Performance and Economic Policies

Over the last two decades, Mexico's growth performance has been superior to that of most developing countries. Its gross domestic product rose at an average annual rate exceeding 6 percent and per capita incomes 3 percent; correspondingly increases in other developing countries were, on the average, 4.5 and 2 percent. All major sectors -- agriculture, manufacturing, and services -- have participated in the growth process. It is noteworthy that Mexico has achieved a rapid expansion of agricultural output: 4.5 percent a year as against 3 percent in all developing countries combined.

Mexico's favorable growth performance is related to its success in raising export earnings at a rapid rate. In the period 1950-1970, the dollar value of its merchandise exports grew at an average annual rate of 5.5 percent, tourism receipts at 8 percent, and border transactions at 10 percent. Tourism assumed especial importance during the nineteen-sixties with receipts rising 13 percent a year; in absolute value, the increase of receipts from tourism and border transactions combined exceeded that from merchandise exports. The exports of goods and services, taken together, rose at an average annual rate of 6 percent during the fifties and 8 percent during the sixties. These changes were accompanied by an acceleration of economic growth: Mexico's GDP rose 7 percent a year during the sixties as compared to less than 6 percent in the previous decade.

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* The recommendations contained in this paper express the opinions of the author; they do not necessarily represent the views of the World Bank.

The expansion of exports has contributed to economic growth in Mexico in several ways. Apart from directly raising national income, exports have provided demand for domestically-produced intermediate products and -- through increases in incomes -- for consumer goods. Moreover, the rapid expansion of exports, together with the inflow of foreign capital, has permitted increases in imports necessary for maintaining a high rate of economic growth.

The proximity of the United States has been an important factor in Mexico's favorable economic performance. Apart from tourists, the U.S. has provided opportunities for the development of border industries and offers a vast market for Mexico's exports in general. The exploitation of at least some of these opportunities has been made possible by the economic policies followed in Mexico.

A stable government, the maintenance of realistic exchange rates, and price stability have provided incentives for exports as well as for foreign investment. Exports of agricultural commodities have also been helped by the fact that there has been less discrimination against agriculture than in most other developing countries; in turn, manufactured exports have benefited from the establishment of the so-called "perimetros libres" where inputs are imported duty-free for processing and export to the United States.

The relatively favorable treatment of agriculture explains that Mexico has developed new exports to replace declining sales of lead, copper, and fresh fish. Export products that have assumed importance in the postwar period include tomatoes, sugar, cattle, shrimp, and maize. Mexico has also made a start in exporting fruits and vegetables other than tomatoes but their combined share in merchandise exports has not reached 2 percent.

The counterpart of the relatively favorable treatment of agriculture is low levels of protection of the manufacturing sector as compared to most developing countries. Average differences between domestic and foreign prices of manufactured goods do not exceed 25 percent and effective rates of protection (i.e. the protection of value added in the production process) are substantially lower than in other major Latin American countries.

In this connection, a distinction should be made between tariff and "implicit" protection, when the latter refers to the percentage excess of domestic over foreign prices. Tariff protection on most processed foods, construction materials, consumer goods, and the intermediate products used in their manufacture is not fully utilized as the excess of domestic over foreign prices is generally much smaller than the tariff. Apart from domestic competition in some of these industries, this situation reflects the effects of smuggling on the prices of the products in question. By contrast, in the case of durable consumer goods, machinery, transport equipment, and technologically sophisticated intermediate products, firms have exploited the possibilities provided by quantitative restrictions to raise their prices above the sum of the import price and the tariff.

The latter category contains several product groups where price differences average 40-50 percent. They include synthetic textile fabrics, knitwear and hosiery, electrical appliances, as well as motor vehicles. Even larger price differences are observed in individual commodities within these groups. The price incentives provided by the system of protection have, in turn, contributed to import substitution in such products during the sixties. This followed the earlier import substitution in nondurable consumer goods, foods, and construction materials.

At the same time, the maintenance of realistic exchange rates, the relatively low degree of protection of inputs and, more recently, the establishment of duty-free zones, have provided incentives for expanding the exports of manufactured goods. In the postwar period, these exports grew at an annual rate of over 10 percent, thus raising their share in manufacturing output. They include hormones, rolled steel products, copper utensils, textiles, glass, and, in recent years, electrical eqipment and automobile parts. As a result, the share of manufactured goods in total exports rose from 9 percent in 1950 to over 20 percent in 1969, substantially exceeding the corresponding proportions in other developing countries.

Mexico's Quandary

It appears, then, that the exports of goods and services as well as import substitution, first in consumer goods, foods, and construction materials and subsequently in simple intermediate products and capital goods, have contributed to economic growth in Mexico during the postwar period. The question arises if these sources of growth can be relied upon in the future. A further question is how could incentives be provided for improvements in the efficiency of Mexican manufacturing.

According to the projections of the IBRD, in order to support a growth rate of GDP of 6 percent a year, exports of goods and services would have to rise at only slightly less than the 8 percent growth rate attained during the sixties. It appears however that, for various reasons, the maintenance of the present structure of exports would not assure the continuation of recent export growth rates. Contributing factors are: weakness in cotton prices, limitations on the growth of coffee and sugar exports, and the near saturation of the U.S. market for tomatoes. Changes in policies would therefore be necessary to attain the projected growth rates of exports and GDP.

A variety of policy measures would need to be applied to ensure the continuing expansion of agricultural exports. Cotton exports could be helped by pest and disease control as well as by providing more favorable treatment to cotton. Since cereals receive a 20-30 percent subsidy in the form of support prices while cotton is subject to an export tax, powerful incentives have been provided for supplanting cotton by cereals. Changes in relative prices would reverse this substitution in the North while in the Central area the production of cereals could be further extended.

There are also possibilities for expanding the export of seasonal fruits and vegetables to the United States. To encourage such exports, it would be desirable to establish marketing organizations that would purchase these commodities under long-term contracts subject to meeting quality requirements. Reductions in the price of fertilizers following the completion of new plants would also contribute to the expansion of agricultural exports while the lowering of the price of cans now exceeding U.S. prices by about one-fourth would provide inducements to the exports of canned fruits and vegetables.

While Mexico's tourist receipts increased at an average annual rate of 13 percent during the sixties, increases in Mexican tourism abroad surpassed 20 percent a year. Given the high income elasticity for tourism by Mexicans, increased efforts would need to be made to maintain past rates of growth in net receipts. A rise of investment in tourism and stepped-up promotional activities would contribute to this goal.

Expanding agricultural exports and tourism in Mexico should be accompanied by a parallel effort to promote the exports of manufactured goods. This is because, apart from their long-term contribution to Mexico's foreign exchange earnings, the expansion of manufactured exports would contribute to improvements in the efficiency of the manufacturing sector and hence to the growth prospects of the Mexican economy. For one thing, familiarity with foreign markets and competition abroad provide inducements for improving quality and for technical change. For another, the expansion of exports permits cost reductions through full capacity utilization of existing plants and through the construction of efficient-size plants, and makes it possible to avoid continuing and expanding import substituting activities which involve high domestic costs.

The gains obtainable through a switch from import substitution to the exports of manufactures are shown by comparisons between the domestic cost of earning a unit of foreign exchange through exporting and saving it through import substitution. The domestic cost of manufactured exports hardly exceeds the f.o.b. price of exports since subsidies to these exports are only 2-3 percent of export value. By contrast, in the new industries established under the licensing system domestic costs exceed the c.i.f. import price on the average by 40-50 percent; for some products this cost differential is as high as 100 percent.

The differences are even more pronounced if we consider the domestic costs of processing exclusive of the cost of material inputs. We then find that exports are penalized by the high cost of some domestic inputs so that successful exporting is often not possible unless processing costs are lower at home than abroad. On the other hand, the producers of import substitutes benefit from the fact that the excess of domestic over import prices is generally greater for the product than for its inputs.

These considerations indicate the superiority of expanding manufacturing output through higher exports rather than through the replacement of imports by domestic production. The conclusion is strengthened if we consider the limited possibilities for further import substitution in Mexico's protected market. After the completion of the process of import substitution in nondurable consumer goods and in a variety of simple intermediate products and machinery, Mexico would increasingly have to turn to commodities which require large-scale operations as well as sophisticated technology. Producing these commodities in the confines of its protracted domestic market would involve high costs and would leave Mexico with a widely diversified manufacturing industry consisting of small-scale firms with little potential for technical progress.

We have noted that the expansion of the exports of manufactured goods would obviate the need to undertake the production of commodities where domestic costs are high. But there is no conflict between exports and efficient import substitution since technologically progressive firms producing for foreign markets will also provide the domestic market at a lower cost.

To increase the exports of manufactured goods, it would be necessary, however, to improve the incentives provided for these exports. Following an evaluation of the system of subsidies presently applied, recommendations will be made in this paper for an export promotion scheme that would contribute to the expansion of Mexico's merchandise exports in general, and its exports of manufactured goods in particular. Further consideration will be given to the system of import protection presently applied and suggestions will be made for improvements in this system in the framework of a new industrial policy in Mexico.

Export Subsidies in Mexico

In recent years, an increasing number of developing countries has come to realize that policies of protection penalizing exports are harmful since these policies adversely affect export earnings while encouraging the substitution of higher cost domestic production for imports. This is especially so in regard to manufactured goods for which the producer obtains high prices in protected domestic markets but would have to sell at world market prices abroad.

Such considerations have induced several countries to reform the system of incentives so as to provide more favorable treatment to exports. In Taiwan and Korea, this has been accomplished by granting a variety of direct and indirect subsidies to exports, including tax and tariff exemption on inputs, preferential credit terms, and exemptions from direct taxes. In Korea, export subsidies average 30 percent, with higher rates provided to manufactured exports. Within the manufacturing sector, exports receive approximately the same incentives as production for domestic use, so that the domestic cost of foreign exchange earned through exporting and saved through import substitution is equalized.

In Western Europe, indirect taxes amounting to 12-20 percent of sales value are rebated on exports and, in the last few years, export subsidy schemes have been introduced also in Latin America. In Argentina, the 12 percent subsidy to exporters of manufactured goods -- said to represent a refund of indirect taxes -- drawbacks for duties paid on imported inputs, and preferential income tax rates together provide a 16-18 percent subsidy on manufactured exports. Since 1969, Colombia grants a 15 percent subsidy to all exports in the form of certificates the exporter can use to pay direct as well as indirect taxes irrespective of whether these taxes relate to export operations, while rebates of indirect taxes and tax credits on manufactured exports reach 40-45 percent of the value of these exports in Brazil. Export subsidies are provided in Chile but at varying rates and on the basis of special investigations of the individual cases.

Mexico's system of export incentives is quite meager compared to schemes applied in these countries. For manufactured goods export credits are provided at preferential interest rates by the Fondo para el Fomento de las Exportaciones de Productos Manufacturados (for short, the Fondo), administered by the

Bank of Mexico. Such loans amounted to 700 million pesos in 1968. With a difference of 5 percentage points in the annual interest rate and the lending period averaging six months, the value of credit preferences to the exporters is about 18 million pesos, accounting for about one-half of one percent of the value of manufactured exports.

There is also the so-called "triple subsidy scheme" administered by the Ministry of Finance which includes exemptions from export taxes, rebates of the Federal government's portion of the turnover tax (1.8 percent on the value of production), as well as refund of 50 percent of income taxes attributable to the increase in exports over 1961. Drawbacks of import duties can further be granted for the imported inputs used in exports if certain conditions are met, and exporters receive the benefit of preferential railway rates at the discretion of the Ministry of Finance.

The total amount of subsidies actually granted is, however, rather small; according to unofficial estimates, they hardly exceed 2 percent of the value of manufactured exports. Not only are the benefits provided by law small but their conferment is subject to a variety of limitations and, if the conditions are met, the practical difficulties of obtaining the benefits are considerable.

Export subsidies are granted only to final goods that undergo no further transformation abroad. Also, the exemption from the turnover tax pertains only to direct sales; in fact, sales through specialized exporters are penalized since the 3 percent turnover tax applies to both the sale of the product to the export firm and its sale abroad by the export firm. Finally, tariff rebates on imported inputs can be given only if these inputs do not exceed 20 percent of the value of output.

The restrictions imposed on export subsidies have no economic justification. To begin with, limiting the subsidies to final goods discourages the export of intermediate products which generally face lower tariffs abroad and are relatively easily marketable as well as the export of parts and components for which there is considerable demand in the United States. Moreover, the exclusion of sales through specialized exporters from the tax rebate scheme, together with the double taxation of these sales, generally limits the rebates to large producers that can sell directly abroad and retards the establishment of export firms which could market the products of small enterprises.

Finally, restricting the rebates of customs duties to products where imported inputs account for less than one-fifth of the price discourages the processing of foreign materials although in such activities Mexico would enjoy the benefit of its relatively low labor costs. This is evidenced by the rapid expansion of the exports of goods made of U.S. materials imported duty-free into the "perimetros libres". At any rate, one should not regard the importation of inputs as undesirable since, from the point of view of the balance of payments and national income, net export earnings are relevant.

There is further the problem that, rather than granting export subsidies automatically, decisions are made on a case-by-case basis. The making of these decisions is a time-consuming process which involves several steps, each requiring the physical presence of the exporter's representatives at the responsible government agency. Claims can be put in only after exportation has taken place and rebates are made after several months. The length of the administrative process, its cost, and the rather strict accounting requirements for a favorable decision tend to discourage exporters from applying and especially small and medium-size firms often do not make use of the facilities provided by law.

Removing the described restrictions, and making the process of granting subsidies automatic, would increase the amount of export subsidies but they would remain rather small both compared to the incentives provided for import substitution and to the subsidy schemes of several competing countries. To encourage exports, it appears desirable therefore to increase the extent of the subsidies and to supplement them by other measures. In the following, recommendations will be made for a system of export promotion, comprising an export subsidy scheme and other promotional measures.

A Suggested Scheme of Export Subsidies

An export subsidy scheme should meet several criteria. First, the scheme should be easy to administer and should not require discretionary decisions. Second, benefits should vary among industries depending on the degree of cost disability due to the system of protection and taxation. Third, it should be designed to avoid retaliation that would nullify its benefits and may even reduce the foreign exchange earnings derived from exports. Needless to say, in Mexico's case the threat of retaliation would come from its major market, the United States.

Being automatic, the Colombian scheme meets the first criterion but not the latter two. For one thing, in providing a flat rate of subsidy to all exports, it takes no account of the fact that manufacturing industries use taxed inputs, both directly and indirectly, more than other sectors. For another, the scheme is open to retaliation since it does not conform to international customs as codified in GATT. In Brazil only manufactured exports receive subsidies but the tax credits applied do not conform to GATT rules.

The fact that Mexico is not a member of GATT does not affect the argument since it would not deter the United States from applying countervailing duties. This has happened in the case of cotton textiles where Mexico rebated export taxes on cotton, thereby favoring its cotton textile industry over its competitors in violation of GATT rules. Moreover, U.S. business and labor are rather sensitive about Mexican exports as witnessed by the restrictive regulations applied to Mexican exports of tomatoes and the objections raised against the Mexican border industries.

GATT rules permit the rebating on exports of customs duties and indirect taxes paid on inputs at the last as well as at earlier stages of processing. According to the Annex to Article XVI of Basic Instruments and Selected Documents, "The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties and taxes in amounts not in excess of those which have accrued, shall not be deemed a subsidy". An interpretation of this provision is given in the Report adopted on November 19, 1960 and published in the Ninth Supplement to the above document. According to the Report, it should be regarded as export subsidy, "The exemption, in respect of exported goods, of charges or taxes, other than charges in connexion with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respect of exported goods, of amounts exceeding those effective levied at one or several stages on these goods in the form of indirect taxes or of charges in connexion with importation or in both forms".

Since the rebating of customs duties and indirect taxes is permitted by GATT, it is not subject to retaliation by the United States or by other importers and this makes it eminently suitable for adopting by Mexico. In compensating for the cost disability imposed on particular commodities by indirect taxes and customs duties, the proposed scheme also conforms to the second criterion of export subsidies. It does not, however, offset the high cost of domestically-produced inputs. But this could not be done without violating GATT rules, hence the adoption of the scheme would need to be accompanied by efforts made to reduce the excess cost of domestic inputs by transforming the system of protection in Mexico. This question will be taken up below.

We have noted that GATT provisions for tax rebates have been used by a number of European countries. The experience of Germany is of special interest since, until recently, Germany had a cascade-type tax system just as Mexico. The tax rate was 4 percent at all stages of processing and, in transforming the cascade-type system into a system of value added taxes, it has been set at 12 percent on a value added basis. In Mexico, the Ministry of Finance has estimated that the 3 percent sales tax is equivalent to an 8 percent tax on value added. The rebate of indirect taxes would, however, exceed 8 percent in the case of manufactured products that go through several stages of processing and it would be lower on primary commodities.

But how is one to estimate indirect taxes levied at previous stages of processing? The experience of Germany is instructive in this regard also. The German tax authorities established norms for individual industries reflecting the approximate amount of taxes paid at the last and at earlier stages. It appears desirable that, in adopting a system of rebating indirect taxes, Mexico also set norms on the basis of which rebates are given automatically. Such norms should be established by the Ministry of Finance in consultation with business organizations and be published in an official document. As the norms would be based on statutory tax rates, they would not be affected by the possibilities of tax evasion at earlier stages of manufacturing. Nevertheless, apart from increasing tax revenue, measures taken to reduce evasion would have the salutary effect of increasing incentives for foreign as compared to domestic sales.

In the calculations, account should be taken of indirect taxes not only on material inputs but also on machinery used at the last as well as at earlier stages of processing. Rebates of customs duties should be estimated in the same fashion although under present conditions the use of tariff exemptions in individual cases complicates the situation. But, with the reform of the system of tariff exemptions suggested below, it will be possible to establish norms for the rebate of customs duties also.

The proposed export subsidy scheme is more general than the scheme presently in effect and it would also provide subsidies at substantially higher rates. First, the scheme would be applied automatically and without exception to all exports. Second, rebates would be given for duties and taxes paid not only at the last stage but also at earlier stages of processing. Third, the rebates would include the portion of indirect taxes accruing to local authorities.

On manufactured exports, tax rebates may provide a subsidy of 12-15 percent, with further benefits derived from the rebate of customs duties. Correspondingly, Mexico could afford to forego refunding income taxes on exports which is not in conformity with international rules. At any rate, income tax rebates have been very small, in part because of the difficulties of determining the relevant amounts and in part because in the case of export industries profits, and income taxes paid thereupon, have been low. Nevertheless, this subject could be reconsidered if the U.S. Congress were to pass the trade bill including the provisions that would effectively provide export subsidies amounting to about 50 percent of profits on exports.

The question arises, however, if subsidies should be given to all exports or only for increases in exports as compared to a base year. It is often suggested that the first alternative is undesirable since it may simply provide an extra profit for exporters without necessarily leading to an increased export effort. Nevertheless, major countries providing export subsidies have chosen the first alternative over the second and for good reasons.

First of all, those opposing the granting of subsidies to all exports tend to assume that export supply is not responsive to price changes. Statistical investigations have shown this not to be the case even in primitive economies and will be even less so in Mexico that has a relatively sophisticated industrial structure. Moreover, a decision as regards the base year for calculating increments in exports involves a considerable degree of arbitrariness and is bound to give rise to manipulations on the part of business, including the shift of exports from one product to the other. Nor does the second alternative conform to criteria of economic efficiency since the subsidization of exports would be based on an historical incident and it would encourage exports of commodities that involve higher domestic costs and the expense of those that have lower costs.

There is finally the question of the budgetary cost of the proposed scheme. Since in Mexico primary activities have a higher share in exports than in domestic production, the average rebate of indirect taxes would probably not exceed 6 percent. Refunding of customs duties may add a further 4 percent for a total of 10 percent, from which the present average rate of subsidy of 2 percent should be deducted.

On the 1969 value of exports, the increase in subsidies would thus amount to about 1.6 billion pesos, to which the subsidy on the increment of exports should be added. This compares with the current revenue of the federal government of 30 million pesos in 1969. But the expansion of exports would also add to revenue both in the form of taxes on income derived from exports and in the form of tariffs on the increased amount of imports that is made possible by the expansion of exports. Accordingly, the federal government would have to find financing only for the net loss of revenue due to the application of export subsidies after allowance for the increase in tax receipts.

The range of possibilities for additional revenue is wide since the ratio of taxes to national income is relatively low in Mexico. Potential revenue sources include taxes on luxury products that would have the additional benefit of improving the income distribution; a rise in the federal portion of the sales tax; increases in income taxes; the elimination of present forms of tax exemptions; and improved tax collection aimed at reducing evasion. The rebate of indirect taxes would be facilitated if Mexico adopted value added taxation as proposed in 1969 but a change in the tax base is not necessary for the application of the proposed scheme.

An alternative possibility is to impose indirect taxes on imports at the same rate as they are rebated on exports. This is in conformity with GATT regulations and it is done in most European countries. It may not offer an appropriate solution for Mexico, however, in part because charges on imports should be determined in the context of a policy of protection rather than on the basis of revenue considerations, and in part because on many commodities the imposition of additional import taxes would increase the incentives for smuggling.

Other Measures of Export Promotion

A variety of measures of export promotion other than subsidies are employed in Mexico. Apart from export credits for manufactured goods granted by the Fondo, the Banco Nacional de Comercio Exterior provides credits for agricultural exports. An export insurance scheme will come shortly into operation that would provide insurance to creditworthy borrowers for a modest fee. The Centro Nacional de Informacion sobre Comercio Exterior, the commercial centers established abroad by the Banco Nacional de Comercio Exterior, trade missions, as well as commercial attachés collect information on export possibilities; the Secretaria de Industria y Comercio participates in the financing of trade fairs abroad; and the Comite Coordinador de la Promocion del Comercio Exterior under the chairmanship of the Ministry of Foreign Affairs has the task of coordinating export promoting activities in foreign countries.

Despite the advances made in recent years in the fields of export credit, insurance, and export promotion in general, much remains to be done. To begin with, the authority for export promoting activities is divided among several agencies, including the Ministries of Finance, Foreign Affairs, and Industry and Commerce, as well as the Bank of Mexico and the Banco Nacional de Comercio Exterior. Some of the particular functions, such as granting of credits, the collection of information, and the organization of trade fairs, are also divided among agencies. At the same time, an adequate coordination of export-promoting efforts is not ensured.

To make export promotion efforts more effective, it would appear desirable to concentrate these in one agency while other governmental organizations would have purely an advisory function. It does not seem necessary that the proposed agency be a new ministry of foreign trade as some suggest; in fact, the establishment of a ministry might well increase bureaucracy. It would be important, however, for the head of the agency to have direct access to the President as does the head of the Department of Tourism.

In the export credit field, the centralization of the granting of credits would be desirable. Also, export credits could be usefully extended to the production of export commodities. Some such credits are now provided by the Fondo but in relatively small amounts. Finally, there is need to improve access to export credits for small-scale manufacturing and handicrafts.

It would further be desirable to unify and to extend the information services presently provided. Possible measures include the increase in the number of commercial centers and commercial attaches abroad; the establishment of commercial centers in Mexico to familiarize foreign importers with Mexican sources of supply; and increased participation in trade fairs and expositions abroad, with the government financing at least part of the cost incurred by private firms.

Information-gathering activities should extend to general economic conditions in major foreign countries and to market possibilities for individual product groups. The analysis of general economic conditions abroad should cover short-run and long-run trends, the system of import restrictions and possible future changes, the cost of transportation and the means of transport, the organization of the import business, a calendar of fairs and business conventions etc. For these purposes, a data bank would need to be created into which information collected centrally as well as by Mexican exporters would be channeled.

While a government agency could not engage in market research in regard to individual products, it could collect data on major product groups. Among other things, it could provide information on the seasonal pattern of consumption; the psychological factors affecting the structure of demand; the existence of domestic and foreign competition; the channels of product distribution; the customary sales commissions and mark-ups; and import controls, duties, and other regulations.

Information on individual products could be collected by specialized export firms. Present legislation discriminates against such firms by restricting the application of export subsidies to direct sales and by the double taxation of sales through export firms. In addition to eliminating these restrictions, it would be desirable to provide tax advantages to specialized export firms whose activities would benefit especially small and medium-scale industry that has so far had scarce possibilities for direct exporting. The establishment of specialized export firms would also make it possible to organize production for export purposes while at the present usually outlets are sought for commodities that are produced anyway.

Specialized export firms may operate in the private sector so as to make use of the profit motive. Public export firms would, however, serve a useful function in agriculture as well as in handicrafts. In this connection, attention should be given to the proposal prepared by the Instituto Mexicano de Investigaciones Tecnologicas which suggests a combination of technical advice and market research for handicrafts.

It would further be desirable to improve the conditions of transportation of export commodities. The major reforms need to be undertaken in the ports where existing conditions provide obstacles especially to the expansion of the exports of manufactured goods. Apart from improving the organization of the ports, a solution has to be found to the labor problems that presently cause delays as well as excess costs to exporters.

The System of Import Protection

While the proposed measures of export promotion would provide inducements for exporting manufactured goods, their effects will be limited as long as import restrictions make it possible to obtain higher profits from sales in domestic markets than from exporting. In the following, the existing system of import protection will be described and recommendations will be made for changes in this system.

Since the early postwar period, licensing has become the basic tool of protection policy, with tariffs and tax exemptions in a subsidiary role. The proportion of imports subject to licensing is about two-thirds in value terms and four-fifths if each tariff classification item is counted separately. Given the wide range of imports for which licenses cannot be obtained, the latter measure is more appropraite for indicating the scope of licensing. It should be added that imports which do not require licenses are chiefly materials not produced in Mexico.

Import licenses are issued by the Secretaria de Industria y Comercio (SIC) on the basis of recommendations made by 80 consultative committees dealing with particular commodity groups. On the committees are represented, apart from SIC, the business groups engaged in the production, importation, and exportation of the products in question. The recommendations of the committees can be overrulled by the Director General of Commerce who is a high official of SIC.

In earlier years applications for import licenses were denied whenever the commodity was produced domestically, irrespective of its cost. From 1966, however, import licenses were generally obtainable if the price differential between the domestically produced and the foreign varieties of a particular product exceeded a certain limit. This price differential was set at 100 percent (later reduced to 90 percent) on old products as well as on new products without an integration program, and at 25 percent on commodities for which an "integration program" has been submitted to SIC. Submission of such a program is generally a precondition for obtaining licenses to import materials, parts, and components.

We find considerable variety in the practical application of these rules, however. This is shown by the written instructions to the consultation committees published in Comercio Internacional, the official organ of SIC. Among nine industries covered in the recent issues, the described rules apply only to nonelectrical machery. In turn, the 90 percent rule is applied to all electric motors and appliances, tubes and pipes, and wires and nails, and the 25 percent rule to most agricultural machinery. Finally, the domestically produced varieties of pumps and compressors cannot be imported, and no price limit has been announced for electronics products, tools, and construction materials.

Nor are cost limits given in the list published by SIC for the use of domestic and foreign investors on commodities where Mexico wishes to encourage the substitution of domestic production for imports. The first such list was published in 1965 and the second in 1967; since then three-fifths of the products included in the lists have come to be produced domestically. The latest list, published in 1970, contains 751 items, one-third of which is in the nonelectrical machinery category, and one-tenth each is automotive parts and components, electric and electronic apparatus, and pharmaceuticals.

Also, in industries subject to integration programs, costs have often risen as a larger proportion of parts and components has come to be produced domestically. For example, the production cost of automobiles increased by 30 percent after domestic content regulations came into effect and price increases were avoided only by reducing sales taxes on cars. According to a study prepared by Nacional Financiera, the average prices of passenger cars in Mexico exceed the prices of comparable foreign cars by 75 percent while for trucks the average price differential is 42 percent. In the electrical equipment industry, too, costs have risen since domestic content regulations have been applied.

In some instances, additional incentives have been provided to producers in the form of licenses for the importation of like commodities, thereby increasing the cost of domestic production to the national economy. This is the case in the wine industry, in watch manufacturing, as well as in some chemicals. Such licenses are given before production begins and it has also happened that the license holder has never started manufacturing.

Import substitution is also helped by tax and tariff exemption schemes although these are of much less importance than licensing. Under the Law of New and Necessary Industries, the Ministry of Finance can provide exemptions from the Federal portion of indirect taxes and import duties, and reduce income taxes by 40 percent, for firms in industries that are new in Mexico or provide less than 80 percent of domestic consumption. The application process, however, takes a long time and its outcome is uncertain as the Ministry of Finance has to consider a long list of criteria.

The Ministry of Finance has much flexibility in granting tax exemptions also in cases that do not come under the Law of New and Necessary Industries, and it can approve schemes of accelerated depreciation. Duty exemptions of 50 and 75 percent can further be granted for the importation of particular installations while industries with integration programs pay the same duty on imported parts and components as the rate applicable to the product itself.

Reforming the System of Licensing

The system of licensing was useful during an earlier stage of Mexico's industrial development when the main objective was to induce the substitution of domestic production for imports of nondurable consumer goods and simple intermediate products. But its deficiencies have become increasingly apparent as the degree of sophistication of Mexican industry has increased.

Criteria for the licensing of standardized products such as textiles, steel, and aluminum are relatively easy to formulate while, in the presence of domestic competition and smuggling, setting quotas on clothing, shoes and other nondurable consumer goods did not impose undue hardship on the Mexican economy. On the other hand, licensing criteria become increasingly complex for differentiated products, such as machinery and intermediate products at a higher degree of fabrication. Quality, performance, delivery dates and repair needs are now often more important than price, and cost criteria alone will not suffice.

SIC tries to deal with some of these problems by setting quality standards. But these are difficult to administer and, in making decisions on 3000 license requests a week, a detailed investigation of each of them is practically impossible. Accordingly, a considerable degree of arbitrariness is introduced in the decision-making process and there is much scope for bargaining. The would-be buyer will argue that the domestic product does not meet its specifications while the producer will ask SIC to refuse requests for licenses even if he had no experience in manufacturing the product in accordance with the buyers' needs. In practice, more often than not, it is the producer who wins.

It should be added that in the case of consumer goods and simple parts and components, the would-be importer will often resort to smuggling from the United States or from border areas where imports enter duty-free.

This is rarely possible, however, for machinery or even for larger parts and components. The user thus has to accept using a high-priced and often inferior domestic product instead of foreign merchandise or produce it himself.

The adverse effects of the system of licensing are especially apparent in regard to parts, components, and other inputs that would need to conform to exact specifications. We often find that the difficulties of obtaining licenses and the unreliability of domestic suppliers have induced firms to integrate backwards and to produce a variety of inputs themselves. Such inputs include, among other things, forgings, gears, and even electric motors. And while backward integration is profitable for the user, it is inefficient from the point-of-view of the national economy because it entails the small-scale production of inputs. More generally, Mexico's industrial development is

Additional considerations relate to technical change. At an earlier stage of development of the Mexican economy it might have seemed appropriate to permit firms producing for domestic markets to make large profits under the umbrella of import licensing on the assumption that profits would be reinvested. Apart from social considerations, this alternative becomes increasingly inadequate since firms that obtain large profits lack the inducements for technological improvements or for seeking foreign outlets. By contrast, under a tariff system, actual or potential competition from abroad will provide incentives for improvements in technology and in product quality, and there will be less disincentive to export. The application of tariffs cum export subsidies would further reduce the bias against exports and thus encourage intraindustry specialization.

It appears then that, at higher levels of industrial development, licensing becomes increasingly inadequate and its replacement by tariffs will be desirable. This explains the tendency observed in semi-industrial countries to switch from quota protection to tariffs. Such a change-over was effected several years ago in Argentina and it has been done even in socialist countries. The Hungarian economic reform of 1968 has entailed such a switch and it would have also taken place in Czechoslovakia had it not been for Soviet intervention.

These considerations suggest the need to replace licensing by tariff protection in Mexico. But the transformation of the present system of protection cannot occur overnight. It is proposed here that as a first step the government should declare that in judging applications for import licenses, permissible price differences between equivalent domestic products and imports will be reduced to 25 percent over a predetermined period, preferably no more than six years. The publication of such a timetable would mean that the changes in the allowed price differential are anticipated with certainty and firms can prepare for them. It should be added that the 25 percent figure is said to be SIC's target but it has not been officially announced nor has the date of its application been set.

The equalization of margins of protection at 25 percent would do away with the present anomaly of permitting larger price differentials for old than for new products. Such differences create unequal treatment for products subject to licensing, and also affect the profitability of products to which identical rules apply whereas their material inputs receive different treatment. Moreover, the prospects for exports are adversely affected whenever inputs are produced domestically at high costs.

Making the licensing of all products subject to a uniform 25 percent rule does away with the raison d'être of licensing. Thus, once the general principle of a 25 percent maximum price differential between equivalent domestic and foreign products has been adopted, preparations can be made to shift from licensing to tariff protection, to be accomplished by the end of the transitional period. Subsequently, the 25 percent rule itself can be reviewed but this, as well as a consideration of the optimum tariff structure for Mexico, falls outside the confines of the present paper.

The described transformation of the system of import protection should be made part of an industrial policy that would include incentives for exports; assistance to research and development; rules for tax exemptions, as well as regulations on foreign investment. A new Law for Industrial Development could take the place of the Law for New and Necessary Industries that has encouraged the application of capital-intensive methods of production and, with its _ex post facto_ application without clearly articulated rules, has often meant increased profits for the recipient without affecting his investment decisions. The new Law could also provide tax benefits commensurately with the employment-creating effects of investment and favor location in uncongested areas.

While the policy of licensing followed in Mexico has encouraged import substitution in a wide range of products, the application of tariffs and subsidy measures would provide incentives for the selective development of industries producing capital goods and sophisticated intermediate products. To make Mexican industry competitive, there is further need to encourage the development of specialized suppliers of parts, components, and accessories. In industrial countries, this is done by small and medium-sized firms on a subcontracting basis. The creation of credit facilities, technical advice, and quality control would help the establishment of such firms in Mexico, as would a switch from sales to value added taxation.

There is finally the question of foreign investment. Mexico needs the participation of foreign firms in modern industries since, apart from capital, these firms bring technological know-how and organizational skills. But, under a system of rather indiscriminate promotion of import substitution, foreign investment might in some cases be detrimental for the country. This is so because the high prices charged on domestic markets involve a transfer of income from the users to the stockholders of foreign firms.

Such adverse effects can be avoided if the subsidiaries of foreign firms cannot charge prices much exceeding the world market price and export part of their output. As long as licensing is maintained, this could be accomplished by limiting the allowed price differential to 25 percent and by requiring newly-established firms to export part of their output as is done in the automobile industry. After the changeover to a tariff-subsidy scheme, price incentives would provide the appropriate inducements.

Summary

In this paper, recommendations have been made for revamping the system of export and import incentives in Mexico. As regards exports, it has been suggested that the present system of incentives be replaced by a scheme of tax and tariff rebates accompanied by additional promotional measures. Such measures relate to export credit, information gathering, assistance to the establishment of export firms, and the consolidation of governmental activities pertaining to export promotion.

There is further need for the transformation of the system of import protection. While the licensing of imports might have been appropriate at an earlier stage of Mexico's industrial development, it has become increasingly inadequate as the degree of sophistication of the economy has increased. To meet the requirements of the new situation, it has been suggested that licensing be replaced by tariffs. This could be accomplished by reducing and equalizing the permissible price differentials between domestic and foreign goods presently used as a criterion for licensing and by subsequently shifting from licensing to tariffs.

The proposed changes should be made part of a new industrial policy in Mexico. This would involve replacing the Law for New and Necessary Industries by a Law of Industrial Development that is to include measures relating to exports, import protection, research, employment and regional development. To the greatest extent possible, the new law should provide for automatic rather than discretionary measures.

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: August 5, 1971

FROM: Edgar Gutiérrez

SUBJECT: MEXICO - Mr. McNamara's Meeting with Mexican Officials

Mr. McNamara received Mr. Rafael Izquierdo, head of the Coordinating Group, Finance Ministry/Central Bank, and Mr. Octavio Diaz de Leon, head of the Public Investment Directorate's Industrial Section in the Ministry of the Presidency, on Monday, July 26, at 11.30 a.m. for a ten-minute courtesy visit. They were accompanied by Mr. Gutiérrez and Mr. Meier. This memorandum records the main points discussed during the conversation.

Mr. Izquierdo submitted to Mr. McNamara a letter from Finance Minister Hugo Margain officially requesting the Bank to finance the National Railways expansion program, 1972/73. He outlined the project's history, pointing out the impact the Bank's Transport Study has had on the formulation of the Mexican transport sector policy and the investment program including the railway and ports projects. He continued saying that the transport sector development efforts had gained such momentum within the Mexican Government, that no time should be lost, particularly in the evaluation of the railway project, and that it would be desirable for the Bank to appraise it as soon as possible.

Mr. McNamara assured Mr. Izquierdo that the Bank would do its best to comply with this request.

cc: Messrs. McNamara
Knapp
Aldewereld
Knox
Nelson

HMeier/mpd

President has seen

Background re Rafael Izquierdo

Mr. Izquierdo was Economic Advisor to Minister Ortiz Mena and has continued in a similar position with Minister Hugo Margain. He was active in the economic briefings of Mr. McNamara during his visit to Mexico and subsequently in the work of the transport sector mission which grew out of Mr. McNamara's visit. He is coordinating work in the preparation of the railways and ports projects for which loans are included in the lending program for the current fiscal year.

July 26, 1971
RNelson/eg

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: FILES

DATE: October 1, 1971

FROM: R. Nelson RN

SUBJECT: MEXICO: Meeting with Mexican Delegation to Annual Meetings (September 27)

Present were:

Bank	Delegation
Mr. McNamara	Mr. Margain, Minister of Finance
Mr. Knapp	Mr. Fernandez Hurtado, Director General, Banco de Mexico
Mr. Chenery	Mr. Silva Herzog, Director General de Credito Secretaria de Hacienda
Mr. Gutierrez	Mr. Izquierdo, Secretaria de Hacienda
Mr. Kuczynski	Mr. Lajous, Executive Director
Mr. Nelson	

1. Minister Margain opened the meeting by referring to the key problems of developing countries cited in Mr. McNamara's opening speech that morning - poverty, inequality, hunger, etc. - and the emphasis being given by the present Mexican Government to attacking them. Mr. McNamara responded with an indication of the Bank's readiness to substantially expand its lending to Mexico, with emphasis on projects which would help in reducing these problems, and then expressed concern about the project pipeline. He pointed to the extended lead time needed for project preparation and the need for both Mexico and the Bank to do advance staff planning in order to assure the timely preparation and review of projects. In response, Mr. Margain indicated that Mexico is establishing a new group focused specifically on this objective.

2. The following specific projects were discussed:

a) Las Truchas - Mr. Margain referred to the priority being given to this new steel project; Mr. McNamara responded that we are prepared to consider financing it and hope that financing can be organized along the lines of three Brazilian steel projects now being considered by the Bank and IDB.

b) Railways and Ports - Mr. Margain mentioned the importance Mexico attaches to our lending for railways and ports. He also again commented favorably on the transport sector study and its usefulness in the formulation of new policies such as for attacking the railway deficit and for organizational improvements relating to ports;

c) Agriculture - The Minister cited the emphasis being given by President Echeverria to attacking rural poverty and the Mexican interest in Bank assistance in this objective. Subsequently, Mr. Fernandez Hurtado suggested the desirability of using the existing institutional arrangements under the Fondo as a means of providing agricultural credit to poor farmers. He suggested that the Fondo is now providing mainly credit to middle level

President has seen

farmers, but could advantageously be enlarged and directed increasingly toward poorer ones. Mr. McNamara responded that we are ready to look at the problem of getting credit to the poorer farmers;

d) Regional Development - Mr. Margain also noted the emphasis being given the Government to decentralization of industry by the development of new regions and the need for the support of the Bank; and

e) Water Supply - The Minister indicated the Mexican interest in a Bank loan for the water supply project for the Metropolitan area of Mexico City and the intention of the Government to increase water charges, as well as power and railway rates and Pemex prices.

3. During the discussion of economic policy matters, Mr. McNamara expressed concern about the need for fiscal measures, both to increase total revenues and to bring about a more equitable distribution of income. In response, Mr. Margain outlined several improvements now being studied in the income tax system. One is to increase the progressivity of the tax system by requiring consolidation of income for income tax purposes rather than taxing different types of income separately as at present. Another is to shift the relative emphasis from taxes on corporate income to personal income, as had been proposed some time ago by Professor Kaldor after a study of the Mexican tax system.

4. The Minister also outlined a plan now being worked out with the objective of assuring the general availability of adequate housing within 10 to 15 years without a burden on the budget. Financing would be obtained instead by increasingly channelling private savings through the banking system to the housing field. He also referred to the serious problems existing in the field of education and vaguely outlined an approach for shifting part of the current burden now being entirely borne by the Government to the private sector through a fees arrangement.

5. Mr. Fernandez Hurtado indicated that Mexico is ready to release $2 million of the $6 million balance of her 90% IDA subscription and to release the remainder in two further installments. After mentioning that Mexico is making the 9% portion of her additional $20 million Bank subscription available only for Mexican procurement, he expressed dissatisfaction regarding the non-utilization of the previous 9% subscription. He suggested that a joint study be made as to why it had not been utilized and to see if the 9% subscriptions can not be used for Mexican procurement in the future. He indicated that, if this was not feasible, Mexico would be prepared to release the 9% subscription on a convertible basis.

6. At the end of the meeting the Minister handed Mr. McNamara a memorandum on "Main Items of Interest to the Government of Mexico," copy attached, covering projects for which Bank loans have been requested in FY 1972 and identifying additional fields of interest for Bank financing in 1973-76.

Attachment

cc: Messrs. Knapp, Chenery, Lajous, Gutierrez, Wright, Fuchs (paras.2a & 2d),
Evans (para. 2c), Ballantine (para. 2), Weiner (para. 2e),
Knox (para. 2b), Kuczynski, Pfeffermann (o/r), Meier, Ruof

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Boards of Governors · 1971 Annual Meetings · Washington, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL MONETARY FUND

Address replies to:

JOINT SECRETARIAT – ANNUAL MEETINGS
IBRD AND AFFILIATES – IMF
19TH AND H STREETS, N.W.
WASHINGTON, D.C. 20431

Cable Address

INTERMEET
WASHINGTONDC

September 27, 1971

M E M O R A N D U M

To: Mr. Robert S. McNamara

From: Hugo B. Margáin

Subject: Main items of interest to the Government of Mexico

I. Projects 71-72

i) Railways: Begin formal negotiations November 29 and present to the Board before the end of the year.

ii) Ports: The evaluating mission will come to Mexico at the end of the month and we do not foresee any difficulties. We hope the loan can be presented to the Board in the first quarter of 1972.

iii) Electricity: Highest priority to continue IBRD participation at present level of commitments; joint financing under review with Eximbank.

iv) Water supply: Regarding the Mexico City project we will take the necessary steps for definition of rates, executing agency and relations between the City and the State of Mexico; the overall study of water resources is of the highest interest to the Government.

v) Las Truchas Project:

Timing is of major importance in this high priority project. We are thankful for the conversations between the Bank and Mexico's representatives during the past week.

vi) Export Industrial Fund:

We are expecting in the month of October the Bank's mission to evaluate the project. If there is a need for a more precise definition of the specific industrial fields where the loan operations of the fund are going to take place, or the procedure to perform the loan operations with the borrowing firms or financial intermediaries, it would be good to clarify these subjects before the mission's visit.

II. Projects 1973-1976

i) The working groups for long-term sector programs have almost finished the 71-76 projects in power, petroleum (a draft report has been given on a confidential basis to the Public Utilities Department), transport and Mexico City.

ii) We will accelerate the formulation of special programs for subsistence agriculture in order to clarify the characteristics of the Bank's participation. Special consideration should be given to the official agricultural bank's access to foreign resources.

iii) In forestry, fishing and technical education we will continue to coordinate the Government's efforts so as to be able to present to the Bank financing requests.

III. Capital subscription to IBRD and use of Mexican Pesos IBRD and IDA.

(See attached letter)

IV. General Economic Report

We wish to express our gratitude for the opportunity to discuss the draft report during the past week. We believe that the report has analyzed the Mexican economy with a high level of technical competence. We also appreciate the opportunity to express a certain number of remarks.

V. International Finance Corporation

We appreciate increased collaboration, mainly with Mexican firms. IFC's participation in Cananea approved (see attached letter).