2-1-1995

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LADB Latin America Data Base News & Educational Services SourceMex
LADB Article Id: 56284
ISSN: 1054-8890

# U.S. President Clinton Bypasses Congress to Provide Aid Package to Mexico

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*Category/Department:* Mexico
*Published:* 1995-02-01

On Jan. 31, US President Bill Clinton abandoned plans to gain legislative approval to provide US$40 billion in loan guarantees to Mexico, citing a lack of votes to support the measure in the US House of Representatives and the US Senate. Instead, Clinton announced a plan to use money from the US Exchange Equalization Fund (which does not require legislative approval). The new plan would include increases in commitments from multilateral institutions that had already pledged money for Mexico, including the International Monetary Fund (IMF) and the European-based Bank for International Settlements (BIS). The funds from the Exchange Equalization Fund and the increased commitments from the BIS and IMF actually increase the total pool of credit guarantees to as high as US$50 billion, or about US$10 billion more than Clinton was seeking through the original legislative initiative. Under the plan, the US would provide as much as US$20 billion from the US$25 billion reserved in the Exchange Equalization Fund, which was originally created to help stabilize the US dollar against major currency fluctuations.

Additionally, Clinton announced that the IMF increased its loan commitment for Mexico to US$17.5 billion, an increase of US$10 billion from the US$7.5 billion the multilateral institution had pledged on Jan. 26. The IMF board, which was scheduled to meet on Feb. 1, must still approve the loan to Mexico. However, IMF managing director Michel Camdessus predicted the loan would be approved without difficulty, given Mexico's specific plan of action to justify the credit, which includes a strengthening of public finances, a tightening of monetary policy, and a sharp reduction in the country's current accounts deficit to a sustainable level. Meantime, the BIS, which is supported mostly by central banks in Europe, doubled its loan commitment to Mexico to US$10 billion from the US$5 billion pledged in early January.

The announcement of Clinton's new plan helped calm the financial markets in the US and Mexico, which had fallen sharply because of the uncertainty about whether the US legislature would ultimately approve the package of assistance. In fact, the peso which had fallen to an all-time low of 6.30 pesos per dollar on Jan. 30 recovered to 5.95 pesos per dollar shortly after Clinton's announcement, and ultimately finished the day at 5.75 pesos per dollar. Similarly, the Mexican Stock Exchange's principal stock index (Indice de Precios de Cotizacion, IPC) gained 10% on Jan. 31. On Jan. 30, the IPC had dropped to 1,787.9, its lowest level in nine months. The original US$40 billion loan guarantees, which Clinton had promised to President Ernesto Zedillo in mid-January, had required approval through enabling legislation by the US Senate and House of Representatives. However, the lack of support in Congress to approve the guarantees became evident by late January, forcing the US administration to seek an alternative method to secure loan guarantees for Mexico.

Clinton's legislative initiative was facing strong opposition even from members of the President's own Democratic Party, who had supported him in the past. For example, Sen. Dianne Feinstein of California said there was no doubt the financial community supported the initiative, but she had

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trouble selling the concept to others. "I know no one in my constituency who is for it," she said. Additionally, many legislators had threatened to attach conditions to the package of loan guarantees before they would support the measure. These conditions would have required Mexico to take such steps as reduce its support for Cuba, tighten enforcement of the borders to slow down the flow undocumented migrants to the US, and enact legislation to guarantee the rights of workers (see SourceMex, 01/25/95).

In the end, however, it was the lack of public support rather than threats by individual legislators to impose conditions on Mexico that proved to be the greatest obstacle to passage. Many legislators said the president had failed to convey the message to the public that the loan guarantees were not a direct transfer of US taxpayer money to Mexico, but rather an agreement to back loans provided by private financial institutions. Indeed, because of the lack of support, key Republicans were reluctant to even bring up the measure for a vote. "I'm very cautious about bringing up a bill until we absolutely know we have the votes," said House Speaker Newt Gingrich on Jan. 30. He had promised cooperation with the Clinton administration, even as he criticized Clinton for failing to line up Democratic support.

"(The measure) is very unpopular in the country and it has not been explained very well," added Gingrich. Republican leaders, in trying to rally support for the credit guarantees, argued that a collapse of the Mexican economy could increase the rate of illegal immigration to the US and increase imports of low-cost products from Mexico. Debate over Clinton's legislative package was also intense among Mexican legislators, who wondered whether the Zedillo administration had agreed to "unacceptable" conditions that would compromise Mexico's sovereignty over the national patrimony, including the country's oil reserves. In a letter to Gurria dated Jan. 30, the Mexican Senate Foreign Relations Committee asked for complete, detailed, and precise information regarding the negotiations between the Clinton and Zedillo administrations. Indeed, during a meeting at the White House earlier this month, Zedillo had pledged revenues from exports of crude oil through the year 2005 as collateral for the loan guarantees.

Two key members of Zedillo's cabinet, Foreign Minister Jose Angel Gurria and Finance Secretary Guillermo Ortiz Martinez, had defended this decision, arguing that Mexico's ownership and control over the oil itself was in no way compromised. Gurria said the Clinton and Zedillo administrations had agreed on a mechanism by which the Banco de Mexico (central bank) would make any necessary payments from sales of oil through an account with the US Federal Reserve branch in New York. "At no time will this mechanism affect our oil policies or endanger our sovereignty over our resources," he said. Meantime, Ortiz during separate testimony before a legislative committee emphasized that international credit guarantees were the only way to ensure that the government had sufficient funds available to meet its obligations on the US$29 billion in Treasury Bonds (Tesobonos) scheduled to come due this year. In addition to the Tesobonos, the government must also pay out US$15 billion on the foreign debt in 1995. Ortiz emphasized to legislators that the oil revenues placed as collateral would only be transferred to the US in the case that Mexico was unable to cover any needed payments, which he said was unlikely.

For his part, Zedillo speaking to the Chamber of Deputies on Jan. 26 urged legislators not to "pre-judge" the situation, since negotiations with the US were still being finalized at that time. He

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reminded the legislators that the Mexican Constitution did not allow unilateral decisions by the executive branch in this situation. "The Mexican congress will have to share responsibility in the decisions of the executive," Zedillo said. "This is the best way to ensure that we continue to protect the sovereignty of our nation." For his part, deputy Francisco Suarez, a member of the finance committee of the Chamber of Deputies, said Mexicans should not view the US efforts to secure guarantees as a "favor to Mexico," but rather as a US move to protect its own interests.

In addition, to the new package of assistance announced by the Clinton administration on Jan. 31, which includes the increased commitments by the IMF and BIS, other countries and multilateral institutions have offered their own initiatives to Mexico. For example, on Jan. 30 Argentine President Carlos Menem announced at a Global Economic Forum in Davos, Switzerland, that Argentina, Chile, Colombia, and Brazil were planning to pool resources to provide Mexico with about US$1 billion in loans. According to the plan announced by Menem, Brazil and Argentina would give US $300 million each and Colombia and Chile would provide US$200 million each. Menem's statement implied that the loan had been approved, but Chile's Finance Minister, Eduardo Aninat, called the announcement "premature," and said the four countries were still in the process of working out details.

According to some analysts, the offer of US$1 billion although a relatively small amount in relation to the funds provided by the US and other multilateral institutions is considered an effort by the four Latin American countries to show "regional" solidarity with Mexico. Separately, a senior Japanese government source told Agence France-Presse in late January that the Group of Seven (G-7) industrialized nations would place the Mexican situation at the top of their agenda at a meeting scheduled for Toronto on Feb. 3-4. The source said the G-7 nations would determine what further steps the seven countries can take to further provide assistance to Mexico. The G-7 countries include the US, Canada, Japan, Great Britain, Italy, Germany, and France. "We expect to discuss measures to help restore confidence in Mexico," a senior Japanese government official told the Reuter news agency. (Sources: Agence France-Presse, 01/23/95; 01/25/95, 01/26/95; Deutsche Press Agentur, 01/26/95; Reuter, 01/26/95, 01/27/95; El Nacional, 01/27/95; Notimex, 01/26/95, 01/28/95; New York Times, 01/27/95, 01/30/95; El Universal, 01/30/95; Associated Press, 01/27/95, 01/30/95, 01/31/95; La Jornada, 01/27/95, 01/31/94; Reforma, 01/31/95)

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