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Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989

Dear Charles,

French Bicentenary: Bilateral with the President of Mexico

// The Prime Minister will meet President Salinas at 1530-1600 on 13 July at the Elysée. I enclose a personality note and the Ambassador's scene-setting telegram. He will be accompanied by Dr Serra Puche, the Minister of Trade and Industry.

Internal Political

Salinas took office last December in difficult political and economic circumstances. The popularity of the ruling Institutional Revolutionary Party (PRI) was at a low ebb, after six years of austerity and declining living standards. In the Presidential election Salinas won only just over 50% of the vote on a low turnout (the first time in 60 years that a PRI candidate had obtained less than 70%). The opposition claimed that the PRI's slender victory was achieved by fraud. However, Salinas moved quickly to restore his domestic and international standing. He has shown himself a tough and decisive leader. He has broken the power of the wealthy and corrupt oil workers' union and moved against other centres of corruption. In April the country's biggest drugs baron was arrested, together with numerous provincial officials and police officers in this pay. Cocaine seizures are sharply up. The Americans are understandably pleased.

Salinas has also pursued sensible and responsible economic policies. Inflation is down from 180% two years ago to 20%. A programme of extensive privatisation and restructuring of an overblown public sector has been undertaken. The number of parastatals has been halved and the major surviving parastatals such as the oil company PEMEX are being restructured. As a result of diversification, non-oil exports now account for 68% of total exports. Foreign investment rules have been greatly liberalised.

Debt

Salinas has invested much political capital in achieving a big reduction in the burden of servicing the US 103 billion external debt. Encouraged by the Brady initiative, Mexico has reached agreement with the IMF on a programme worth \$4.1 billion and with the World Bank on loans worth \$1.5 billion,

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both including a set aside for debt reduction. In May, the Paris Club rescheduled \$2.6 billion of official debt. Negotiations with the commercial banks are proving difficult. Mexico has offered the banks a reduction in either the face value of the debt or the interest on it, in return for collateral or interest support from the Fund and Bank; or provision of new money. The Banks have now offered a 30% discount on face value or an interest rate reduced to 7 1/4% compared with a reduced Mexican request for a 45% discount or a 5% interest rate. Mexico is looking in addition for some \$3.5 billion of new money per year, but the banks are offering only about \$1 billion. Higher world interest rates are aggravating Mexico's problems but higher oil prices have partly compensated for this.

Bilateral Relations

Anglo-Mexican bilateral relations are good but thin on substance. Mexico is the UK's second largest Latin American market but our market share is a disappointing 1.5%. UK investment in Mexico, including funds originated from the Cayman Islands, totals about \$1 billion, putting the UK in second position behind the USA. There are some 200 UK/Mexican joint ventures. Last November a new UK/Mexico air services agreement was signed, but BA have suspended plans to serve Mexico because of difficulties with staffing, equipment and route management. A bilateral anti-narcotics agreement, is under discussion.

The Mexicans have proposed that Salinas' meeting with the Prime Minister should cover:

- bilateral relations, scope for increasing trade and tourism.
- UK role in the renegotiations of Mexico's debt.
- Cooperation on drugs. - Mexico's new foreign investment regulations
- Privatization.
- Possible visit by the Prime Minister to Mexico. ∫ - Prospects for the G7 Summit.
- British views on the prospects for the international oil market and recent events in the Gulf.

The Prime Minister may wish to make the following points:

- We share Mexico's desire to strengthen relations, including trade and tourist exchanges. The Foreign Secretary will visit Mexico in September; Mr Alan Clark later in the year. A discussion on introduction of BA's planned service to



Mexico must be for BA's commercial judgment.

- We applaud Salinas' continued efforts to restructure and liberalise the Mexican economy. The limited use of IFI resources to encourage commercial bank debt reduction was agreed with good adjusters like Mexico in mind. It is now for debtors and banks to negotiate the best deal possible. Proposals for further public sector contributions would simply give the banks an excuse to delay.
- (if necessary). It is not HMG's policy to interfere in the banking system.
- Congratulate Salinas on recent successes against narcotics trafficking and cultivation in Mexico.
- Express the hope that a bilateral agreement with effective provisions to trace, freeze and confiscate traffickers' assets can be concluded (the Mexicans are pushing for a more general approach).
- Welcome the recent liberalisation of Mexico's foreign investment regulations.
- Seek confirmation of reports from Mexico that once the present debt negotiation with the commercial banks is concluded, Salinas will allow debt/equity swaps.

The Prime Minister will not need special briefing on the remaining topics proposed by the Mexicans.

I am copying this letter to Alex Allan (HMT) and Trevor Woolley (Cabinet Office).

Jan.
Stephe

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street



SALINAS DE GORTARI, LIC. CARLOS

President of the Republic since 1 December 1988.

Born 3 April 1948 in Mexico City.

Joined the PRI at the age of 18. Graduated in Economics from UNAM (1966-69). In 1972 Salinas went to Harvard University for his post-graduate studies: Masters in Public Administration (1973), Masters in Political Economy (1976) and Doctorate in Political Economy (1978).

He worked as an analyst in the Finance Ministry in 1970 and 1974. In 1976 he was Deputy Director of Economic Studies. In 1979 de la Madrid, then Minister of Budget and Planning, appointed Salinas Director General of Economic and Social Policy to prepare the Ministry's Global Development Plan. When de la Madrid was chosen as presidential candidate of the PRI in 1981, he appointed Salinas head of the Institute of Political, Economic and Social Studies (IEPES) - the body responsible for drafting the policies and programmes of the incoming administration.

On de la Madrid's accession in 1982, Salinas was appointed Minister of Budget and Planning at the age of 34. For the next six years he was de la Madrid's closest economic adviser. He was generally perceived to be the architect of the Administration's economic austerity measures. He was also a strong advocate of Mexican membership of the GATT and other elements of de la Madrid's attempts to open up the Mexican economy.

Salinas' nomination as the PRI's presidential candidate on 4 October 1987 reflected de la Madrid's preference for continuity and consolidation in Mexico's economic policies. Salinas was seen as the quintessential modern technocrat, never having held elective office, nor worked in the party machine.

Salinas is sharp intellectually but his lack of political experience makes him somewhat dependent on a group of close political advisers. He performs competently if rather stiffly in public but is relaxed and personable in private. He is a keen sportsman: jogging, tennis and horseriding (for which he received a silver medal in the Pan-American Games in 1971).

He married Cecilia Ocelli Gonzalez in 1972. They have three children who study at the Japanese school in Mexico City. The family often appear in public, reflecting the importance Salinas attaches to family life.

He speaks good English.