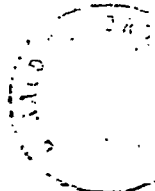


MEXICAN ECONOMIC SITUATION

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the following information concerning the economic situation in Mexico:

Based on everything gleaned from Mexican and local American contacts, President Echeverria has lost the confidence not only of the business sector as such but also of virtually everyone who has savings in Mexico. It is not believed that Echeverria can restore any degree of confidence and therefore stabilization cannot become effective as long as he remains in office. The best the Mexican Government can do under the circumstances is to slow down capital flight or at least make it more expensive. There are no immediate means of improving the psychological climate, to reverse the price spiral, to stop merchants and suppliers from hoarding, or to dispel the gloom spreading over Mexico.

It is doubtful that the Government of Mexico has any planned position in case stabilization does not work. Currency exchange controls are talked about but always with the recognition of immense difficulty of enforcement, given the long border and two-way crossings by millions of people daily. As one police official puts it: "We cannot even control illegal border crossers; how are we going to control legal travellers who carry money?" There is no doubt that exchange controls would result in immediate black market and large scale dumping of the peso. A true float of the peso, with the peso finding its own level would be very difficult, particularly with respect to keeping labor in line. In the final analysis, some form of stabilization must work, the only alternative being a rigid dictatorship which would impose its policies by force



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as in the Soviet Bloc. We do not foresee this for Mexico within the time frame of the next several years, but we do expect further deterioration and high inflation.

Economic policy in Mexico, like any other policy, is determined by the President. Officials may make suggestions, and President Echeverria likes long discussions with all possible options put on the table, but in the final analysis, he alone decides.

Lopez-Portillo's private secretary insists his boss is not exerting any influence at this time. Lopez-Portillo is quoted as saying that Echeverria's authority must not be diluted and that he, Lopez-Portillo, does not want a piece of an action which he cannot control. On the other hand, Echeverria and Lopez-Portillo have several private meetings each week, and it is difficult to imagine that there would be no give-and-take during these get-togethers. It cannot be estimated to what extent Echeverria may be influenced by what Lopez-Portillo says during these meetings.

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