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National Security Council Meeting  
August 11, 1986, 11:00 a.m.-12:00 noon, Cabinet Room

SUBJECT: The Situation in Mexico and the Upcoming Visit of  
Mexican President de la Madrid

PARTICIPANTS:

The President

The Vice President

The Vice President's Office  
Mr. Donald Gregg

JCS  
Admiral William J. Crowe  
Lt. Gen. John H. Moellering

State  
Deputy Secretary John C. Whitehead  
Assistant Secretary for Inter-  
American Affairs Elliott Abrams

USIA  
Mr. Stanton H. Burnett

Treasury  
Secretary James A. Baker, III  
Mr. David Mulford

White House  
Mr. Donald T. Regan  
Admiral John M. Poindexter  
Mr. Larry Speakes  
Mr. David L. Chew

Defense  
Deputy Secretary William H. Taft  
Mr. Nestor Sanchez

NSC  
Mr. Rodney B. McDaniel  
Mr. William Perry

Justice  
Attorney General Edwin Meese  
Mr. Stephen Trott

USTR  
Ambassador Allan Woods

Commerce  
Secretary Malcolm Baldrige  
Mr. Bruce Smart

Energy  
Secretary John S. Herrington

OMB  
Mr. Joseph Wright  
Mr. L. Warne Arney

CIA  
Director William J. Casey  
Mr. Richard J. Kerr

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BY RW JAS NARA, DATE 12/2/05 10/9/12

Minutes

Admiral Poindexter: Mr. President, the meeting today is to review our policy toward Mexico, in preparation for the visit of Mexican President Miguel de la Madrid on Wednesday. (S)

Many agencies have strong interest in our relationship with Mexico and it has been three years since we have had an NSC meeting on this uniquely important country. I believe it is useful to get everyone together today so that we are on the same wave length when the Mexicans arrive. In addition, the situation in Mexico is far different than it was in 1983, when we had successfully gotten over what we hoped was a temporary crisis.

(S)

The bilateral and multilateral issues that we have traditionally treated with the Mexicans are still very important. And I look forward to hearing the concerns and prognosis of the various agencies with respect to our relations with Mexico. But I also feel that it is now clear that the problems of Mexico are not only circumstantial but systemic in nature. If the Mexicans do not realistically address these systemic problems in the near future our southern neighbor may find itself in serious trouble.

(S)

We have been supportive of the Mexican effort to recover economically. And we understand Mexico's difficulties with continuing austerity and the need to get the Mexican economy growing again. Mexico is now in the process of coming to a new agreement with its creditors that will run through 1987. We have helped and will continue to help in this regard. (S)

But it seems to me that we have to be sure this time that the resources being provided will yield tangible evidence of real growth in production of goods and services. If these resources are dissipated or used simply to reflate non-productive activities for domestic political purposes, Mexico will be worse off two years from now than it is today. Relations with her creditors will further deteriorate and our ability to help out will be progressively circumscribed. (S)

The Baker Plan and the IMF have pushed them in the right direction. Their adhesion to GATT is an encouraging sign. But we cannot let them use this visit to bless a general refinancing agreement that will not be accompanied by needed reforms and results. At this meeting we really have to draw them out on their specific growth plans to see if they are practical and if there are ways in which we can be of assistance. We should be creative and positive in the hope that we can assist Mexico to put her economy on the road to recovery. (S)

But also we should be establishing, in our own minds, criteria by which the future performance of Mexico should be judged. If the present system in Mexico proves incapable of making the necessary adjustments, it may be headed for serious trouble. Under such circumstances we should know the telltale signs early on and be prepared to consider some difficult options. (S)

Director Casey: For the last five years, our national estimates on Mexico, most recently in February of this year, have projected an increasingly grim outlook for economic and political stability in Mexico and for the future problems that promises for the United States. In his Washington visit President de la Madrid will want to emphasize positive developments in Mexico and keep critical underlying realities off the table and as invisible as possible. (S)

The chief realities are these:

-- Mexico's economic problems did not begin with the recent collapse of oil prices. The Mexican government began stimulating the economy two years ago in anticipation of mid-term elections. It would have been in financial trouble even had oil prices not declined. (S)

-- The new \$12 billion rescue package the Mexicans are putting together, of which the IMF agreement is the centerpiece, is a short-term palliative, not a long-term cure. Mexico City will be back seeking additional financial help in 1988, if not sooner. (S)

-- The Mexicans are not ready to make the structural changes needed to put their economy on a sound footing. We believe de la Madrid understands what is needed but has yet to bite any political bullets with a few relatively painless exceptions -- negotiating entry into GATT, closing down a bankrupt nationalized steel company, and talk of additional airline divestitures. Moreover, we believe that these moves are largely intended to satisfy Washington and international creditors and that the pace of reform will grind to a halt late next year when a new presidential campaign season opens. (S)

-- Poor economic conditions in Mexico will contribute heavily to a growing surge of illegal aliens across our southern border. One half of the Mexican work force is either unemployed or underemployed. (S)

-- We have reason to believe that the Mexicans have greatly overstated their oil reserves. They are using them inefficiently, and not investing enough in exploration. Yet oil is the backbone of the economy. In recent years it has generated over 70 percent of export earnings and 45 percent of national revenues. (S)

-- Little progress has been made on the narcotics front, despite de la Madrid's personal commitment. Corruption is so pervasive among Mexican enforcement officials that senior Mexican officials now admit they need outside help and are ready to replace existing agencies charged with combating narcotics with new ones. (S)

-- In Central America, the Mexicans continue to work against our policies. The Mexicans stopped selling oil to Nicaragua last year, but they continue to offer strong diplomatic support to the Sandinistas. Their Foreign Minister is in the lead in pushing for a Contadora agreement which would facilitate consolidation of the Sandinista regime. (S)

The Mexicans are reluctant to deal with these underlying realities because many of the problems associated with them are deeply rooted or would require more political capital than the present administration is able or ready to use. If the de la Madrid administration continues to look for temporary "fixes" rather than long-term solutions, it will be increasingly difficult to bail them out. (S)

At present, President de la Madrid is under little external pressure to reform, key advisors have been urging him to do as little as possible to satisfy Washington and creditors, and those who called for stronger action have been replaced or have lost influence. (S)

Still, there are some areas where we believe the Mexicans could be induced to do more to ease their next crisis and develop greater credibility to meet it. They can adopt more evenhanded policies in Central America and, in particular, support efforts to promote democracy in Nicaragua. This would require that de la Madrid personally provide stronger leadership. With stronger leadership from de la Madrid, the Mexicans can make greater headway on the narcotics problem. We believe de la Madrid is sincere in wanting to stem the flow of drugs. We have evidence that relevant ministers are ready to clean up their enforcement act and even to quietly bring in foreign support. (S)

The Mexicans can take steps to open their economy to greater foreign investment, not just by altering regulations but by changing their attitudes and eliminating red tape. They can show a will to reduce the Mexican government's role in the economy by selling off additional state companies. A bolder move, such as returning banks nationalized in 1982 to the private sector, would require even greater political courage but would clearly signal a policy shift of the kind necessary to get the favorable attention of Mexico's creditors. (S)

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Deputy Secretary Whitehead: I would like to begin by affirming that this meeting will be a most important one. We have to reconfirm our friendship with Mexico but we also have to talk about some serious problems. (S)

Mexico is in bad shape and its collapse would have very serious consequences for the United States. Historically there is a tendency toward backsliding during the last two years of a Mexican President's mandate. We have to stiffen their backbones. We have to ensure that privatization will continue, that they will continue to reduce governmental expenditures and that they will move to freer exchange rates. (S)

There are other problems as well, such as controlling drug trafficking and immigration. In addition on foreign policy matters, Mexico supports us only 14 percent of the the time at the United Nations and gives us serious problems over Nicaragua and El Salvador. The trick will be to keep on good terms with the Mexican government while moving it closer to our views on these many contentious matters. (S)

Secretary Baker: I appreciate Director Casey's views. But whether the current refinancing package is a short term palliative or will provide the basis for a longer term solution depends on what is done in the next couple of years. We need to be sure that the time provided is well employed. During the upcoming meeting we and the President will have to lean on the Mexicans to make certain that the necessary structural reforms are undertaken in a timely and effective fashion. (S)

The new IMF package is an innovative arrangement that is very much in Mexico's interest. The World Bank will also be a much more active player in the structural adjustment area. The Mexicans are now beginning to talk to the commercial banks and I believe that they will come along to the tune of about \$6 billion. The total package will amount to some \$12 billion. (S)

Mexico's credibility with the international financial community is low. We must be supportive. In adhering to the IMF package, and through other measures, the Mexicans have given indications that they will come along with a sensible program of economic reforms. (S)

De la Madrid has only two years remaining of his mandate. And, if the Mexicans do not perform now, they will have no credibility left at all. There will then be an inevitable confrontation with the international financial community to the detriment of all. (S)

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They are beginning to take some of the actions that are necessary but they need to do much more. We have to encourage them strongly not to just talk but to implement sound policies all along the line -- privatization, control of spending and stimulating real growth of productive enterprises. (S)

The world financial community is prepared to give Mexico one last chance. The program the IMF has elaborated and the Mexicans have accepted is a good one. But, of course, they will have to really implement it. This the main point and should be the main point of our meetings with them this week. (S)

The President: I always have said that countries grow great by importing people and money. But who would invest in Mexico now? The Mexicans always tell me that all their restrictions are due to old Spanish customs. What they need is privatization and capital investment aimed toward greater productivity. This is increasingly recognized all around the globe by all nature of regimes. Look at China, for example. The craftsmanship and work habits of the average Mexican are excellent but need to be capitalized and productively organized. Foreigners even have difficulty in owning land. If restrictions were lowered, Baja California, for example, could become the Riviera of the Western Hemisphere. (S)

Should these matters be taken up in the general meeting or in the one-on-one? How much opportunity will I have for one-on-one discussion with President de la Madrid? (S)

Attorney General Meese: You certainly should carve out sufficient time for your one-on-one with de la Madrid. And we have to talk to them about drugs too. Cooperation with the Mexicans is difficult and their efforts have been insufficient in recent years. I am hopeful, however, that things may be getting better. President de la Madrid seems dedicated and Attorney General (Garcia) Ramirez has been very positive. Since our "showdown" meeting in April there has been considerable improvement in Mexico's attitude. We have set objectives and we are working toward their achievement. (S)

Corruption remains a serious problem. But eradication is going on and our DEA agents are in on the plan. The Mexicans have agreed to extend these eradication efforts and are anteing up half the cost. Seizures and arrests are up. We have training programs going on both here and in Mexico. Our twin cities program has been generally successful. On the immigration front there are still problems but at least we can talk them over rationally. (S)

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I will take the opportunity presented by this visit to explain our new South-west Border Initiative to the Mexicans. And it will be announced after that. Basically, although the problems are still serious and the cooperation is not all it could be, we have managed to establish a more productive climate. We should follow up strongly at these meetings. (S)

Admiral Poindexter: Mr. President, you will have ten or fifteen minutes of one-on-one time with President de la Madrid. That should be sufficient to convey the general idea to him personally. Then we can follow up with discussion of particular issues in the general meeting. (S)

Secretary Baldrige: My main points have already been raised by others. I would only like to add a plea for the Mexican private sector. It is not only a question of allowing foreign investment. The Mexican business community could do a lot more if the government would only let it. This message does not seem to have gotten through yet. The government still has an inward-looking economic policy -- protective and restrictive of the local private sector. As a result what business there is concentrates on ineffective import substitution not on productive exports. (S)

Of course their laws and practices do scare off foreign investment as well. They seem to have an excessive fear in that respect. The U.S. percentage of total investment in Mexico is little better than 4 percent. By way of comparison foreigners account for about 10 percent of investment here in the United States. (S)

I know there are political sensitivities here. But the Mexican leaders will have to be encouraged to show real leadership on these issues. Right now foreign investment is low and Mexican capital is actually leaving the country. What is needed is increased confidence on the part of both foreign investors and the Mexican private sector. (S)

The President: The Mexicans grow up thinking of us as the threat. But the profits of our companies are only a small fraction of the benefits that increased investment would yield for Mexico. (S)

Director Casey: There is great ideological resistance to that idea. Certainly there are many ways in which expanded U.S. economic involvement would help Mexico -- in the petroleum sector for example. The Mexicans lack investment capital and we have oil service companies with nothing to do here at home. But many of these potential opportunities are in the toughest areas for Mexican nationalism to accept. (S)

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Deputy Secretary Taft: These economic issues are important. But I am also concerned about Central America. Basically Mexican policy is not at all supportive of our efforts there. Is there any way this can be turned around? (S)

Admiral Poindexter: At the Mexicali meeting Secretary Shultz really took Foreign Minister Sepulveda to task on this. They have cut off oil credits to Nicaragua and reduced the rhetoric a bit. But basically they are still not with us. (S)

Assistant Secretary Abrams: Mexico also still beats up on Duarte's government in El Salvador -- another point that should be raised. (S)

Chief of Staff Regan: What is the current price of oil? (S)

Secretary Herrington: We have been filling the Strategic Petroleum Reserve for as little as \$10.22 per barrel recently. But with OPEC's latest actions, the spot market has risen to \$14.25. Our arrangement with the Mexicans on Strategic Petroleum Reserve is now coming to an end and we are entering negotiations to see what can be done from September on. (S)

Secretary Baker: The IMF plan takes this into account and provides Mexico with the credit it needs on a sliding scale, depending on the price of petroleum. (S)

Ambassador Woods: There are also a couple of other issues we ought to bring up. We are currently in difficult discussions with the Mexicans over intellectual property rights -- patent protection basically in the pharmaceutical area. There is also the question of export subsidies still under negotiation. (S)

The President: There are obviously a great number of problems to discuss with our Mexican friends. There are so many restrictions that the Mexican government places on foreign economic involvement and, indeed, on Mexico's own citizens. The corruption, of course, greatly complicates everyone's best efforts. Coming from California and having many friends in Mexico, I am a first hand witness to many of these problems. Let's try and have a friendly but forthright discussion. I will begin it during my one-on-one with President de la Madrid. And we will carry it on, with your support, during the general meeting and over lunch. Thank you all. (S)

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