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FEB 12 1970

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RSAA-
WAL-12

AGR COM FRB

FROM : Amembassy MEXICO

DATE: January 9, 1970

INT LAB TAR

SUBJECT : FY-1972 CASP

TR XMB AIR

REF : CA-6146, November 14, 1969

ARMY CIA NAVY

O3D USIA NSA

The Fiscal Year 1972 Country Analysis and Strategy Paper for Mexico is attached. The CASP for Mexico represents a Country Team effort; the list of contributors and participants appears on the last page of the enclosure.

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Enclosure:

- Country Analysis and Strategy Paper - Mexico

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FORM 4-62 D5-323

In Out

Drafted by: See last page for contributors.

Contents and Classification Approved by: DCM: Jack B. Kubisch

Clearances: (in draft)

POL: WWStuart
CON: TRFavell

ADM: RJRibble
CAS: JBNoland

CCA: JSHenderson
DATT: JJIrvin

OSIS: GARYlance

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COUNTRY ANALYSIS AND STRATEGY PAPER - MEXICO

PART I - RATIONALE AND BASIC STRATEGY

Mexico has a special importance for the United States. Because of our common frontier of almost 2000 miles, Mexico's ability to maintain reasonable political stability and a broad compatibility with U.S. aims and institutions is essential to U.S. security. In economic terms alone, Mexico merits special attentions: it is our fifth largest export market and the recipient of U.S. direct investments amounting to over 1.5 billion dollars. Mexico receives more U.S. tourist dollars than any other country in the world and in return sends more tourists and immigrants to the U.S. than any other country. The extraordinary interchange between Mexico and the United States requires the services of fifteen U.S. constituent posts in addition to the Embassy, giving valuable opportunities for communication by U.S. personnel with Mexicans outside the capital.

Mexico also enjoys influence within Latin America, and to some extent in the developing world at large, that can have considerable impact, for good or ill, on the achievement of U.S. international objectives. In a time when economic nationalism appears to be a growing force in Latin America, the fact that Mexico pioneered expropriation but presently welcomes foreign investment and enjoys good relations with the object of its earlier resentment (the U.S.) gives Mexico's voice special weight in Latin America.

U.S. policy must operate against the backdrop of Mexico's unique view of the United States. Our policies and actions are of prime importance and of constant concern to the Mexican leadership. Old interventions still influence domestic political attitudes and the country's foreign policy. Despite Mexico's substantial economic dependence upon us, domestic political realities and strong nationalistic sentiments impel it to act as independently as possible, and new interventions, whether actual or imagined, elicit reactions from Mexicans which can damage Mexican-U.S. relations out of all proportion to their importance. A recent and vivid example was Operation Intercept, which might have been passed off elsewhere as a short-lived minor irritant, but was viewed by most Mexicans as a calculated insult to their country with grave implications for Mexican-U.S. relations.

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A. Key U.S. interests

In these circumstances, the key U.S. interests in order of priority are as follows:

1. Preservation of U.S. national security

This means the preservation of Mexican independence and security under a government whose objectives are compatible with our own, even though its institutions may differ, and with continuing political stability based on widespread popular support. It accords high priority to the preservation and strengthening where possible of present Mexican cooperation on matters of security importance.

2. Promotion of common economic interests

This recognizes that continued healthy economic development in Mexico is essential not only to social progress and political stability but also to the preservation of substantial and growing U.S. economic interests in the country, which in turn contribute to its development.

3. Strengthening of special bilateral relationships

This recognizes the existence of numerous special bonds as well as practical problems arising out of geographic proximity, economic involvement and cultural interaction, and it requires close inter-governmental relationships based on mutual respect and consideration for each other's interests, regardless of some ideological or policy differences. In addition, it requires a careful weighing of the relative importance of foreign and domestic policy considerations in those situations - frequent in U.S.-Mexican relations - when the two are in conflict.

4. A more helpful Mexican International Role

This accepts the continued subordination of Mexican foreign policy to domestic considerations and recognizes that Mexican interests may at times

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diverge from our own. With these reservations, it calls for more active and responsible Mexican participation in international affairs, particularly within the hemisphere.

B. Basic U.S. Strategy

Broadly speaking, the trend in Mexico in recent years and the present situation are favorable to these key U.S. interests. The problem of US. strategy is thus not so much to change an unsatisfactory situation or to reverse adverse trends but rather to ensure that a generally favorable situation continues to evolve in a favorable way. U.S. strategy is based on recognition that Mexican institutions and development programs have brought internal stability, wide support for the government, and a very satisfactory rate of economic development.

This strategy relies for implementation upon traditional diplomatic means of persuasion, and upon the constraints imposed on the Mexican Government by ties already existent with the U.S. and projected for the future. It envisages an active information and cultural program with some emphasis on student audiences. It includes a Military Assistance Program of approximately the present scope directed toward the development of a small but highly professional armed force, adequately equipped and trained to meet its responsibilities for the maintenance of internal security and the integrity of its coastal waters. At present, military assistance funds are used for training only. The small AID Program has now been limited to projects of regional interest using regional funds.

U.S. leverage, however, is circumscribed by Mexican hypersensitivity to overt U.S. pressures which, if not used with care, would either prove counterproductive or undermine political stability. Even the appearance of pressure - as in the case of Operation Intercept - triggers strong Mexican reactions. Special attention must be given to the style in which U.S. policy toward Mexico is conducted.

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on Mexico's balance of payments, it is not likely that the leadership will take steps to curb imports or the tourism outflow and thus accept a temporary slow-down in the growth rate. On the other hand, it is probably fair to say that external developments in 1969 have helped stimulate the administration to intensify its efforts along more positive corrective lines, such as in measures for expanding exports and the tourism inflow, for increasing the financing of investment programs for domestic resources, and for expanding the domestic market for Mexican industry.

Barring unfavorable external developments, it seems likely that the present Mexican administration in its last year will maintain the present real growth rate of from 6 to 7 percent, even at the cost of some reduction in foreign exchange reserves and an increase in the foreign debt service burden. This could present the succeeding administration with a deteriorating external position which could force it to adopt a more austere policy, perhaps restricting imports and external financing at the expense of a lower growth rate. A rate of from 3 to 4 percent, the lowest that could now be envisaged, might be considered acceptable for a year or two, or until the corrective measures mentioned above permit a faster growth without worsening the external position.

- b) Can Mexican economic growth be maintained if there is an increase in protectionist measures in the U.S.?

Both Mexico and the U.S. have the capability to injure the other's interests, and the injury to Mexico could seriously affect its balance of payments and rate of growth. Protectionist pressures in the United States are particularly strong against a wide variety of agricultural imports and various bills to limit them are before the Congress, some aimed specifically at Mexico. If enacted, these measures would have a serious adverse effect on Mexican agricultural sales to the United States, which amount to some \$365 million annually, or over one-half of total exports to the U.S. Moreover, growers in Mexico have invested so heavily in expanded production of the major crops exported to the United States that they have become particularly vulnerable to restraints which may be imposed on their access to that market.

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Mexico imports over \$75 million of agricultural products from the U.S., and by means of its flexible import licensing system could retaliate meaningfully against protectionist actions by the U.S.

The effects of proposed U.S. protectionist measures on Mexico and U.S.-Mexican relations could be severe if actions were not taken to diminish their impact. Such actions should include, first and foremost, meaningful and in-depth consultation with Mexico concerning upcoming measures that might affect its interests. Had there been, for example, that kind of prior consultation on tomatoes before the size limitations on U.S. imports went into effect in the 1968-69 marketing season or on "Operation Intercept," the U.S. would have avoided some very rough days in its relations with its neighbor to the south. Another means of diminishing the impact of U.S. protectionism on Mexico is for the U.S. to pursue vigorously the announced intention of President Nixon to seek generalized preferences for the imports of manufactures from all developing countries, a move heartily supported by Mexico.

- c) Are Mexico's long-term economic development policies adequately oriented to maintain political stability and achieve social goals?

In the long run there will be a deterioration in the thrust of Mexico's development effort, and its political stability, unless decisions on several key problems are made fairly soon, hopefully with the introduction of a new administration in 1970.

The most basic of these is a decision to give official support to population studies and programs of family planning. Fortunately, there have been encouraging developments on this front in the past year. The private Mexican Foundation for Population Studies, affiliated with the International Planned Parenthood Federation, has been accepted by the Mexican Social Security Institute and the Ministry of Health to operate family planning clinics within their hospitals. Also, the largest and country-wide Mexican labor organization announced its intention to provide family planning information for its membership. Nevertheless, the Mexican Government remains extremely sensitive to any possible publicity for its so-far low-key efforts to attack what it is obviously beginning to realize is one of the key problems for the country's

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continuing economic development. For the next ten to twenty years the problem is more one of unemployment and poverty, with their social and political repercussions, than any anticipated food shortage, but it is nonetheless real for the Mexican Government. Despite the reported statements of President-to-be Echeverria opposing population control, which perhaps can be largely discounted as campaign oratory, the people involved in Mexico's growing population program remain confident that progress will continue. What would be inimical to such progress, however, is any possible foreign involvement, especially that of the U.S. Government. Frustrating as it may be, the best course for the United States is a continued hands-off policy, in the understanding that, otherwise, at this delicate stage there is grave danger of a major setback and that the intelligent economic management which Mexico has displayed up to now will eventually see the need for population control as an essential development tool.

The chronic "poverty problem" of widespread subsistence living in the backward "traditional sector," mainly rural and often landless, could produce local political explosions and even national repercussions if exploited by extremists. The problem is being attacked through a continuing land redistribution program, through industrialization in urban areas, and through programs aimed at improved agricultural productivity. Even so, about one-half of the new entrants into the labor force each year cannot find employment in the "modern" sector (including commercial agriculture). Action is lagging on programs which would provide more job opportunities and better living conditions in rural areas and reduce the pressure to migrate to the cities - or to the northern border areas and, illegally, to the United States. The Mexican Government should be encouraged to reassess its priorities and direct greater resources into programs which would be employment-intensive (e.g. exploitation of forests, fisheries, livestock), develop small industries in rural areas, and improve rural living conditions (e.g. housing, electrification, social services). President-to-be Echeverria has consistently stressed in his extended campaign visits to rural communities that his administration will intensify efforts to assure better income distribution. It remains to be seen to what extent his avowals will become concrete programs.

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A third high-priority problem: area concerns human resource development. Substantial educational reform is long overdue, beginning with needed structural changes and encompassing content and quality. The increasing student population, teachers' salaries, research, laboratory and library facilities, and the preparation of teachers all need immediate attention and improvement requiring a larger share of the GNP. A plan of educational reform has been prepared which would resolve some of these pressing problems and a great deal of publicity and discussion has been given its various proposals. However, since 1970 is a year of presidential succession, any substantive action on reform is unlikely to be undertaken before then.

C. Key Issue: Strengthening of special bilateral relationships.

The Mexican-American relationship is probably unique in its confrontation of immediate neighbors who have such a wide disparity in levels of development and affluence and such differing attitudes and approaches to the solution of their national problems. We have the world "North-South" problem on our own border - the confrontation between the industrialized and developing world as well as a problem of ethno-social accommodation. One must add to this a history which includes military intervention, economic invasion, and a domineering political and cultural thrust from the north, producing in turn a defensive, suspicious and nationalistic reaction in the south.

Despite these obstacles and with only an occasional setback, most recently in "Operation Intercept," there has been a growing warmth and increasingly effective cooperation between the two countries over the past decade. This has been expressed in cordial top-level rapport, a proliferation of visits and joint meetings at all levels, the gradual resolution of old and sticky issues, growing economic and cultural ties, and highly effective cooperation in such key areas as law enforcement, intelligence collection, and the control of plant and animal diseases. We see this warmth and cooperation continuing although problems such as those raised by "Operation Intercept" and the tomato and meat situations, reinforce the need for substantial effort on both sides. We consider it highly important for the solving of these and other problems that the top level rapport existing in the past continue under the Echeverria/Nixon administrations.

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Because of the wide spectrum of practical problems which exist between the two countries, we see it as indisputably in the U.S. interest to strengthen the relationships which make it possible to resolve them amicably. In many cases the problems involve domestic U.S. groups whose interests are of concern to numerous agencies in the U.S. Government, and particularly to the parts of those agencies which are concerned primarily with domestic affairs. A key issue for inter-agency consideration (see below) is how far the US. Government can go in protecting domestic interests without undermining cooperative relationships with Mexico.

The maintenance of a cooperative working relationship depends essentially on the attitudes of the leadership and of key groups in each country, and on the effectiveness of the instrumentalities for dealing with bilateral problems. Changes in attitude may result from changes in the general political orientations of both the United States and Mexico. The interaction and mutual understanding between business and labor groups in one country and their counterparts in the other will doubtless increase but without necessarily resolving the more important conflicts of interest which separate them. Leftist intellectual groups in Mexico will predictably keep up a running, sniping attack on the United States throughout the period, and the Mexican leadership will feel compelled to placate them on certain issues and at certain times.

Despite the range and significance of these problems, the widespread awareness that we are inescapably neighbors places both countries under a strong compulsion to cooperate, and fortunately there are a number of instrumentalities for improving understanding of each other's problems and laying the groundwork for solutions. They include the International Boundary and Water Commission, the Joint Trade Committee, the Joint Mexican-United States Defense Commission, the Commission for Border Development and Friendship (CODAF), the annual Interparliamentary Meetings, the U.S.-Mexico Businessman's Committee, and the Joint Trade Union Committee. Some of these instrumentalities have been more effective than others. The IBWC has been especially active and useful. The Joint Trade Committee, since its establishment in 1965, meeting alternately each year in the two capitals, has been a good forum for airing trade problems but could be even better with increased authority for attacking hard issues. CODAF has failed thus far to live up to the hopes initially held for it, but it is essential that it be continued at least for the present since its abolition would be viewed in Mexico as another indication

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of lack of U.S. concern for Mexico. Its long term survival should depend on its ability to perform functions of substantive importance better than other existing agencies.

1. Key Question

- a. Can we preserve and strengthen a special relationship with Mexico without damage to our own essential interests?

There are some bilateral problems which arise out of the application of basic Mexican development policies - e.g., the protection of Mexico's "infant" industries or its investors from foreign competition or domination - and for which solutions can be found, if at all, only on an ad hoc basis. Mexico's policy toward foreign investment is somewhat more extreme in theory than in practice; nevertheless, it can be expected that there will continue to be obstacles of varying form and intensity for existing and proposed U.S. investments in Mexico under "Mexicanization." Although Mexico has recently announced a relaxed interpretation of its rather rigid system of import permits (in order to stimulate more exports by forcing local manufacturers to be more competitive), import control regulations still apply to over 80 percent of all tariff classifications and the application of these controls can be tightened at any time. Trade discussions with the Mexican Government should include special efforts to communicate an adequate understanding of the unique interplay among economic development policies related to foreign investment, technology requirements and import barriers. In these matters practical solutions depend heavily upon a friendly and cooperative atmosphere, a willingness to appreciate and respect each other's policies and political problems, and more frequent and meaningful consultation between the appropriate groups of each country.

Another set of problems, more numerous and often more difficult because they do not stem from the broad development policies of each country, arises out of the conflicting interests of private groups. As illustrations:

- The U.S. Government-financed irrigation projects may sink new wells which threaten to increase the salinity of waters delivered to Mexican farmers under bilateral treaty arrangements;
- United States and Mexican fruit and vegetable growers control their domestic markets without sufficient concern for the impact on the other country;

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2) Give primary emphasis to expanding Mexico's economic-commercial role, particularly within the hemisphere.

3) Direct U.S. efforts to a gradual expansion of Mexico's international role, thus minimizing pressures on domestic stability and reducing the possibility that a more active Mexican role may develop in ways contrary to U.S. interests!

4) Avoid compulsive pre-emption of leadership and initiative. Mexican support is much more likely in circumstances which do not suggest that the Mexican Government is simply following the United States' lead. This is particularly true with respect to hemispheric economic matters.

E. Assessment of Previous CASP

We consider last year's CASP and the policy objectives which it defined as still basically valid. At the same time, there were several developments in the past year which would have caused us to give more emphasis to Mexican hypersensitivity to overt U.S. pressures, to strengthen our attention to the possible conflict of U.S. domestic considerations and our relations with Mexico, and to give more weight accordingly to the policy objective which called for "strengthening of special bilateral relationships." The key event which occasions this reassessment is Operation Intercept, not only because of its negative impact on Mexican public opinion and on the Mexican government but because of the way it has colored, or rather, discolored other events which might have been dismissed altogether or considered merely as temporary irritations. During and after Operation Intercept many Mexicans began to link alleged U.S. slights and hostile policies; retrospectively, the well-publicized tomato, meat and border industries' problems, as well as the recent criticism of Mexico in the U.S. resulting from the problems of a U.S. owned sulphur producer, were seen by Mexicans as adding up to less concern by the United States for Mexico and signalling therefore, a deterioration in U.S.-Mexican relations. We believe, however, that last year's CASP properly ordered the priorities of U.S. interests and the issues stemming therefrom.

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