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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
211947	MEMO	CLARK TO THE PRESIDENT RE NSC MEETING	3	8/8/1983	B1
211948	MEMO	SAPIA-BOSCH, MARTIN TO CLARK THRU TYSON RE NSC MEETING	1	8/8/1983	B1
211949	TALKING POINTS	FOR NSC MEETING	1	8/9/1983	B1
211950	PAPER	RE US-MEXICAN RELATIONS	2		B1

The above documents were not referred for declassification review at time of processing

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NATIONAL SECURITY COUNCIL MEETING:

DATE:	SUBJECT:	PARTICIPANTS:
8/9/83 11:02-11:55 a.m. The Cabinet Room	MEXICO	The President State: Secretary George P. Shultz Asst. Secretary Langhorne Motley Treasury: Secretary Donald T. Regan Assistant Secretary Marc E. Leland Defense: Secretary Caspar W. Weinberger Under Secretary Fred Ikle Justice: Attorney General William F. Smith Commerce: Secretary Malcolm Baldrige Mr. Lionel H. Olmer Agriculture: Deputy Secretary Richard E. Lyng Under Secretary Daniel Amstutz Energy: Secretary Donald P. Hodel Mr. George J. Bradley, Jr. OMB: Mr. Joseph Wright CIA: Director William J. Casey Mr. John Horton (NIO Latin America) USTR: Amb. Robert Lighthizer Miss Marian T. Barell (Latin Americ JCS: ADM James D. Watkins VADM Arthur S. Moreau, Jr. White House: Mr. Edwin Meese III Mr. Michael K. Deaver Judge William P. Clark Mr. Richard G. Darman Mr. Charles P. Tyson NSC: Mr. Robert M. Kimmitt Mr. Alfonso F. Sapia-Bosch Mr. William F. Martin Office of the Vice President: Mr. Donald P. Gregg Mr. Michael McManus

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~~CONFIDENTIAL~~

SYSTEM II 90982

MEMORANDUM

NATIONAL SECURITY COUNCIL

CHRON FILE

August 11, 1983

~~CONFIDENTIAL~~

INFORMATION

MEMORANDUM FOR ROBERT M. KIMMITT

FROM: WILLIAM F. MARTIN WFM/bm
AL SAPIA-BOSCH AL

SUBJECT: Minutes of 9 August NSC Meeting

Please find attached the minutes of the 9 August NSC meeting.

OK
RMK
8.12.83

Attachment
As stated

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SYSTEM II
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THE WHITE HOUSE

WASHINGTON

CONFIDENTIAL

NATIONAL SECURITY COUNCIL MEETING

August 9, 1983, 11:02-11:55 a.m., Cabinet Room

SUBJECT: Mexico

PARTICIPANTS

The President

STATE
Secretary George P. Shultz
Asst. Secretary Langhorne Motley

TREASURY
Secretary Donald T. Regan
Asst. Secretary Marc E. Leland

DEFENSE
Secretary Caspar W. Weinberger
Under Secretary Fred Ikle

JUSTICE
Attorney General William F. French

COMMERCE
Secretary Malcolm Baldrige
Mr. Lionel H. Olmer

AGRICULTURE
Deputy Secretary Richard E. Lyng
Under Secretary Daniel Amstutz

ENERGY
Secretary Donald P. Hodel
Mr. George J. Bradley, Jr.

OMB
Mr. Joseph Wright

CIA
Director William J. Casey
Mr. John Horton (NIO Latin America)

USTR
Amb. Robert Lighthizer
Miss Marian T. Barell (Latin America)

JCS
ADM James D. Watkins
VADM Arthur S. Moreau, Jr.

WHITE HOUSE
Mr. Edwin Meese III
Mr. Michael K. Deaver
Judge William P. Clark
Mr. Richard G. Darman
Mr. Michael McManus
Mr. Charles P. Tyson

OFFICE OF THE VICE PRESIDENT
Mr. Donald P. Gregg

NSC
Mr. Robert M. Kimmitt
Mr. Alfonso F. Sapia-Bosch
Mr. William F. Martin

Minutes

William Clark opened the meeting by saying that the purpose was to discuss political and economic issues related to the President's forthcoming meeting with President de la Madrid in La Paz Mexico on August 14. He

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noted that de la Madrid had agreed to accept an intelligence briefing on Central America from US officials prior to the meeting between the Presidents. Clark then called on Secretary Shultz to give a political overview.

Secretary Shultz began by saying that President Reagan's approach to this and other meetings with Mexican Heads of State was much more substantive than meetings of the last Administration. There was much content to the upcoming meeting. Mexico is in a tough position. They are making solid progress in implementing their IMF program, but this has been at a cost of severe economic austerity measures. De la Madrid knows that the key to economic recovery is a close relationship with the United States. He is straightforward and tough-minded and is more direct in private meetings. Much of the success of this visit, therefore, will depend on the private meeting between the Presidents. Shultz concluded by noting that a joint statement was a good idea.

Secretary Regan then gave an economic overview. During the period 1977-81 Mexico achieved rapid economic expansion, but it was at a cost of high inflation and a large trade deficit. The rosy picture came to an end last year. The US had to come to the rescue by offering to prepay for oil for the SPR, provide CCC credits and arrange a BIS loan. Despite an impressive improvement in Mexico's balance of payments, economic growth is still forecast to be minus 6% this year. However, things are beginning to improve and ultimate success will depend on how well Mexico meet its IMF targets. The President should praise de la Madrid for his tough stand and urge him to stay the course.

Secretary Shultz then reviewed the political objectives for the visit. First, strengthen bilateral relations. Second, seek a trilateral meeting with Trudeau following the President's trip to East Asia and third, improve understanding and commitment on the part of Mexico to our Central American policy.

Secretary Shultz noted that there is a chance that we might get a regional solution and Mexico has a critical role to play in that process. They are the main patron of Nicaragua and are seriously concerned about the "export" of a revolution.

A tougher Mexican stance could be just the signal which is needed to make real progress. De la Madrid needs a non-military solution. If the US intervenes militarily, it will make his desire for closer ties to the US, so necessary for economic recovery, much harder to achieve. The President should be very direct and tough with de la Madrid in the private meeting and, somewhat softer in the expanded session. He should not say anything nice about Castro, only note that if Castro really wanted to be forthcoming he knows how to do it. Our objective out of this meeting is to get more direct Mexican support for our concerns -- both bilaterially and within the Contadora process.

Secretary Regan then outlined the following economic objectives: congratulate Mexico on meeting its IMF targets and urge continued adherence to the program; remind him of our past $3 billion effort to assist Mexico in their time of dire need; note that we are able to offer an additional $500 million in CCC credits and that we are working on additional EX-IM financing possibilities for our exports; encourage him to continue efforts to look outward towards trade as a means to increase economic growth and, in this respect, encourage a liberalization of trade barriers and membership in GATT; urge de la Madrid to continue efforts to diversify industry away from petroleum; and finally, underscore that the US led world recovery will help stimulate trade and imports of Mexican goods. The President should stress that he is strongly opposed to protectionist legislation.

Secretary Hodel then reviewed energy relations. Of most immediate importance was the opportunity to accept another 35,000-40,000 barrels of Mexican oil for the SPR. The President should avoid discussion of gas issues, but may want to note the positive cooperation we have between the two countries in scientific exchanges and joint R&D projects.

Secretary Baldrige followed by discussing the tremendous progress Mexico has made in reducing its trade deficit, however, much of the reduction has been US imports costing the US some 200,000 jobs. He noted that it is critical that Mexico be urged to reduce subsidies to the private sector firms which are generally fully capable of success in a totally free market environment.

William French Smith then reviewed the immigration issue. Mexico considers immigration a matter internal to each country and will probably not raise it in this bilateral meeting. He noted that we have had an excellent relation on drug enforcement and we should praise the Mexicans for their efforts and ask if we can have landing rights for drug enforcement efforts in the Yucatan.

Secretary Shultz noted that the situation in Central America could lead to a serious immigration problem for countries north, particularly Mexico and the US. The Mexicans may lose their safety valve -- jobless Mexicans heading North for better job opportunities -- if immigration becomes such an issue that the US must clamp down severely. At this point, the President noted that thousands of refugees had recently demonstrated in favor of US policy in San Francisco, but the media had failed to pick up this pro-Administration rally.

The President then asked if progress had been made on sewage problems. Assistant Secretary Motley said that Mexico was in the process of raising budget funds for clean up efforts. Bill Clark said that we would provide an update for the President on this issue later this week.

Bill Clark then asked for final summary comments. Secretary Weinberger said that there are no pressing military related issues to raise. We have good military to military relations. Ed Meese noted that there has recently been a new border crossing opened near San Diego. Deputy Secretary Lyng noted that Mexico is the third largest importer of US agriculture. Assistant Secretary Motley said that we are close to a solid environmental agreement with the Mexicans.

The meeting was adjourned at 11:55 a.m.

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AGENDA
NSC MEETING
TUESDAY, AUGUST 9, 1983
11:00 a.m.-12:00 p.m.
CABINET ROOM

I.	Introduction (2 minutes)	William P. Clark
II.	The Situation in Mexico - An Overview	
	-- Political (5 minutes)	George P. Shultz
	-- Economic and Financial (5 minutes)	Donald T. Regan
III.	Objectives of the Trip	
	-- Political (5 minutes)	George P. Shultz
	* Building Closer Relations	
	* Central America	
	-- Economic and Financial (4 minutes)	Donald T. Regan
	-- Energy (3 minutes)	Donald P. Hodel
	-- Commerce (3 minutes)	Malcolm Baldrige
	-- Immigration (3 minutes)	William F. Smith
IV.	General Discussion (28 minutes)	
V.	Wrap-Up (2 minutes)	William P. Clark

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Bud McFarlane			
Jacque Hill	3		
Judge Clark	4		A
John Poindexter			
Executive Secretary			
NSC Secretariat			
Situation Room			

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cc: VP Meese Baker Deaver Other JUDGE

COMMENTS Should be seen by: Aug 8 3^00 pm
(Date/Time)

For NSC mtg - Tues. 8/9 -
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211948	MEMO SAPIA-BOSCH, MARTIN TO CLARK THRU TYSON RE NSC MEETING	1	8/8/1983	B1

National Security Council
The White House

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Jacque Hill	3	✓	
Judge Clark	4	✓	I
John Poindexter			
Executive Secretary			
NSC Secretariat			
Situation Room			

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DISTRIBUTION

cc: VP Meese Baker Deaver Other

COMMENTS Should be seen by: Aug 9 10^00 am
(Date/Time)

Clearance roster for Yates/Osborne at Tab II -done 1900 8/8

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NATIONAL SECURITY COUNCIL

~~SECRET~~ August 8, 1983

MEMORANDUM FOR WILLIAM P. CLARK

FROM: ALFONSO SAPIA-BOSCH

SUBJECT: Talkers for NSC Meeting on August 9, 1983

Attached are talking points for your meeting at 11:00 AM on August 9.

Attachment:

Tab I Talking Points

Tab II Clearance Roster

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211949	TALKING POINTS FOR NSC MEETING	1	8/9/1983	B1

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REQUEST FOR APPOINTMENTS

To: Officer-in-charge
Appointments Center
Room 060, OEOB

Please admit the following appointments on August 9, 19 83

for The President (NAME OF PERSON TO BE VISITED) of White House (AGENCY):

State:
Secretary George P. Shultz
Assistant Secretary Langhorne Motley

Treasury:
Secretary Donald T. Regan
Assistant Secretary Marc E. Leland

Defense:
Secretary Caspar W. Weinberger
Under Secretary Fred Ikle

Justice:
Attorney General William French Smith

Commerce:
Secretary Malcolm Baldrige
Mr. Lionel H. Olmer

Agriculture:
Deputy Secretary Richard E. Lyng
Under Secretary Daniel Amstutz

Energy:
Secretary Donald P. Hodel
Mr. George J. Bradley, Jr.

OMB:
Mr. Joseph Wright

CIA:
Director William J. Casey
Mr. John Horton (NIO Latin America)

USTR:
Amb Robert Lighthizer
Miss Marian T. Barell

JCS:
ADM James D. Watkins
VADM Arthur S. Moreau, Jr.

White House:
Mr. Edwin Meese, III
Mr. James A. Baker, III
Mr. Michael K. Deaver
Judge William P. Clark
Mr. Richard G. Darman

NSC:
Mr. Robert M. Kimmitt
Mr. Alfonso F. Sapia-Bosch
Mr. William F. Martin

Office of the Vice President:
Mr. Donald P. Gregg

MEETING LOCATION

Building West Wing White House — Requested by Carol Cleveland

Room No. Cabinet Room — Room No. 372 Telephone 3044

Time of Meeting 11:00 a.m. — Date of request August 8, 1983

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OEOB — 395-6046 or WHITE HOUSE — 456-6742

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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August 5, 1983

MEMORANDUM FOR:

Mr. Donald P. Gregg
Asst to the Vice President
for National Security Affairs

Mr. Charles Hill
Executive Secretary
The Department of State

Mr. David Pickford
Executive Secretary
The Department of the Treasury

Col. John H. Stanford
Executive Secretary
The Department of Defense

Mr. Roger Clegg
Special Assistant for
NSC Affairs
The Department of Justice

Mr. Raymond Lett
Executive Assistant to the
Secretary
The Department of Agriculture

Mrs. Helen Robbins
Executive Assistant to the
Secretary
The Department of Commerce

Mr. William Vitale
Executive Secretary
The Department of Energy

Dr. Alton Keel
Associate Director for National
Security and International Affairs
The Office of Management and Budget

Mr. Thomas C. Cormack
Executive Secretary
The Central Intelligence Agency

Ms. Jackie Tillman
Executive Assistant to the United
States Representative to the UN

Mr. Dennis Whitfield
Executive Assistant
Unites States Trade Representative

Brig Gen George A. Joulwan
Executive Assistant to the
Chairman
Joint Chiefs of Staff

SUBJECT: National Security Council Meeting:
Tuesday, August 9, 1983, 11:00 a.m. - 12:00 noon,
Cabinet Room

Attached is the agenda for Tuesday's National Security Council meeting.

Meeting attendance is principal plus one. Attendees' names should be called to my office by noon, Monday, August 8. Thank you.

Robert M. Kimmitt

Robert M. Kimmitt
Executive Secretary

Attachment

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AGENDA
NSC MEETING
TUESDAY, AUGUST 9, 1983
11:00 a.m.-12:00 p.m.
CABINET ROOM

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	-- Political (5 minutes)	George P. Shultz
	* Building Closer Relations * Central America	
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	-- Commerce (3 minutes)	Malcolm Baldrige
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V.	Wrap-Up (2 minutes)	William P. Clark

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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August 5, 1983

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Executive Secretary
The Central Intelligence Agency

Ms. Jackie Tillman
Executive Assistant to the United
States Representative to the UN

Mr. Dennis Whitfield
Executive Assistant
Unites States Trade Representative

Brig. Gen. George A. Joulwan
Executive Assistant to the
Chairman
Joint Chiefs of Staff

SUBJECT: National Security Council Meeting: Tuesday, August 9, 1983, 11:00 a.m. - 12:00 noon, Cabinet Room

Attached are briefing papers prepared by the Department of State, which provide background information for Tuesday's National Security Council meeting.

Robert M. Kimmitt
Robert M. Kimmitt
Executive Secretary

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Attachment
Background Papers

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ECONOMIC/FINANCIAL SITUATION

Mexico's economic difficulties have forced the Government of Mexico to adopt strong economic adjustment measures. Following two years of economic growth in excess of 8%, Mexico experienced economic problems in 1982. Faced with a severe financial crisis, President de la Madrid, in December 1982, announced a stabilization program in keeping with the agreement Mexico had just reached with the International Monetary Fund. Mexico is receiving $3.9 billion from the IMF over a three year period. There is also $5 billion in new money provided by commercial banks in return for Mexico's compliance with the terms and conditions of the IMF agreement.

The GOM is committed to reduce the public sector deficit from 16 percent to 8.5 percent of GDP during 1983. Achievement of this objective will require a major effort to reduce public sector expenditure and increase revenues by eliminating or reducing subsidies to both the private and public sector, by restructuring taxes, and by a restrained wage policy. The GOM has eliminated currency controls, adopted a more realistic exchange rate and obtained an agreement on the restructuring of a portion of its more than $80 billion debt. The GOM has restructured an estimated $20 billion of principal on public sector debt maturing between August 1, 1982 and December 31, 1984. On June 22, official creditors signed a Paris Club rescheduling of Mexican private sector debt and agreed to provide $2 billion in new official export credits this year. These credits are in addition to the assistance package organized by the U.S. in August of 1982 which included pre-payment for oil deliveries to the Strategic Petroleum Reserve, commodity credits and a Bank for International Settlements (BIS) bridge loan. Mexico is also seeking an additional $500 million in commodity credits from the U.S. in FY-83.

In 1982, Mexico's current account deficit dropped to $3 billion from $13.9 billion in 1981. A further drop to $1.4 billion is projected for 1983. On the other hand, real GDP declined by 0.2 percent in 1982 and is expected to decline by 3 to 4 percent this year. Scarcity of foreign exchange, budget constraints, and reduced domestic demand will keep import levels down. Declining profits and difficulties in obtaining foreign exchange to pay for necessary imports have led Mexican industry to seek export opportunities abroad.

Mexico's economic difficulties have had a negative impact on U.S.-Mexican economic and trade relations. U.S. exports to Mexico declined drastically in 1982, falling by an unprecedented $6 billion or 34 percent. Projections for 1983 are for a further drop of $9.5 billion in U.S. exports to Mexico.

In May 1983, the IMF announced that Mexico was in compliance with the IMF targets for the first quarter of the year and that, assuming continued favorable conditions, Mexico should be able to restore the stability of its economy. Whether Mexico will be able to meet its IMF commitments in the future remains an open question.

July 29, 1983

BRIEFING PAPER

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MEXICO'S TRADE

Mexico has the potential of becoming a major trading nation. Its growing population and oil revenues would indicate a long-term growth in import demand. On the export side, Mexico's comparative advantage seems to lie in production of manufactured goods based on local primary materials, and in those products for the U.S. market which require substantial labor inputs and moderate transport costs to remain competitive. Examples are assembly products made from imported components, metal products, motor vehicle parts, electronic components and wearing apparel. Mexico encourages exports through a number of incentive programs.

However, Mexico's success as an exporter will continue to be hampered by transportation and raw material bottlenecks, as well as by shortages of skilled labor. Protectionist pressures in the U.S. will not help. At the same time, the financial constraints imposed by declining oil revenues coupled with Mexico's protectionist practices have resulted in a dramatic decline in imports.

Nevertheless, trade remains a significant element in the structure of the Mexican economy. In 1982, Mexico's two-way trade reached $35.4 billion. Oil exports alone were about nine percent of Mexico's 1982 GDP, and, as Mexico's principal export, accounted for roughly three-fourths of Mexico's $21 billion export earnings. Mexico also exports significant quantities of cotton, coffee, fruits and vegetables, minerals, and light manufactures. On the import side, Mexico is dependent on trade for a large percentage of its foodstuffs, machinery, and industrial equipment. Over 80 percent of these come from the United States.

The U.S. is Mexico's principal trading partner, the destination and source for over three-fourths of Mexico's trade with the world. The EC and Japan rank a distant second and third. In 1982, the United States purchased $16 billion in Mexican products, 74 percent of Mexico's exports, including almost one-half of its oil exports. The U.S., in turn, supplied 82 percent of Mexico's imports. Mexico is our third largest trading partner, after Canada and Japan, and also the third largest market for U.S. agricultural products.

From 1970 to 1980, U.S. trade with Mexico grew at an impressive annual rate of over 25 percent, with U.S. imports from Mexico growing slightly faster than U.S. exports to Mexico. In 1981, the impressive trade growth continued as

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U.S.-Mexico trade jumped by almost 50 percent. But, in 1982, the picture changed dramatically. Mexico tightened its belt drastically, and imports from the U.S. fell by an unprecedented $6 billion dollars, a 34 precent decline from 1981. The U.S. ran a trade deficit with Mexico of close to $4 billion in 1982, compared to a surplus of the same magnitude in 1981. We expect U.S. exports to Mexico in 1983 to be $9.5 billion or 13 percent below their 1982 level.

U.S.-Mexican Merchandise Trade*
(Million of Dollars)

	U.S. Exports	U.S. Imports	Two-Way Trade	Balance
1980	14,855	12,520	27,405	+2,365
1981	17,360	13,765	31,125	+3,595
1982	11,104	15,566	26,670	-4,462
1983				
Jan	627	1,286	1,913	-659
Feb	712	1,195	1,907	-483
Mar	747	1,329	2,076	-582
Apr	681	1,346	2,027	-665
May	826	1,696	2,522	-870
To Date	3,593	6,851	10,445	-3,259
1982				
Jan-May	5,993	5,935	11,928	+58

* Excludes 806,807 trade (offshore assembly operations).

Source: U.S. Department of Commerce FT 900.

August 1, 1983

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B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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THE MEXICAN NARCOTICS ERADICATION PROGRAM

We consider the Mexican narcotics eradication program, which is the most comprehensive undertaken in the world, to be one of the two most effective international narcotics control cooperative efforts and one of the positive aspects of current Mexican/U.S. relations. In the mid-1970's, 87 percent of the heroin consumed in the United States was of Mexican origin; by 1981, this figure had dropped to 36 percent (6.5 tons to 1.4 tons). The U.S. has provided $104 million in general assistance to support eradication programs since 1972. The program has also reduced cultivation of Mexican marijuana, which once dominated the U.S. market, to about 3 percent of the U.S. supply.

There have been indications recently of an increased availability of Mexican heroin. The Mexican Attorney General has assured us that the de la Madrid administration intends to cooperate fully on anti-narcotic matters and will sustain the program at the existing level. His office is presently studying proposals for improving the program's efficiency. Attorney General Smith and INM Assistant Secretary Dominick DiCarlo met Foreign Secretary Sepulveda on April 5, and encouraged continuation of the eradication campaign in full force. The Mexican Attorney General's office also sent a delegation in May to Miami to discuss with the Coast Guard possible steps to improve coordination of the drug interdiction effort in the Yucatan channel. The delegation also travelled to Washington to review the eradication program with senior Washington officials, including FBI Director Webster, Senator DiConcini, Representative Zablocki, and INM Assistant Secretary DiCarlo.

The Mexicans reported that despite favorable growing conditions for the latest opium poppy crop, overall heroin output should not increase significantly because of an intensified manual and aerial eradication effort. We doubt the Mexicans will raise the eradication program for discussion at this meeting, preferring to keep this issue within the existing State Department-INM/Mexican Attorney General channel.

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POLITICAL OVERVIEW

Mexico

President de la Madrid continues to face a political situation of unprecedented complexity as a result of Mexico's economic crisis. His key task is to apply necessary austerity measures to restore Mexico's economic health while maintaining the balance of interest groups that has ensured Mexico's stability for many years.

Since the Revolution of 1910, the Mexican political system has proven to be one of extraordinary resiliency. Mexico has avoided the coups and upheavals endemic to other Latin nations. Much of Mexico's stability is due to the consensus-building nature of its political system, the all-encompassing dominant position of the long-ruling Institutional Revolutionary Party (PRI), and the absence of major political opposition from left or right to continued PRI rule. The ongoing economic crisis represents an unusual challenge to the Mexican political system, however, and must be dealt with competently if the system as we know it is to survive.

President de la Madrid is off to a promising start. He has announced an economic program of strict austerity, has cut the public sector budget, and has begun an anti-corruption campaign of potentially significant proportions. However, the successful implementation of his austerity program over the long term will require a political tour de force on the part of the new president. The austerity measures will pinch labor, the peasants, the poor, the entrepreneurs and others who have provided the consensus which is the basis for Mexico's continued stability. President de la Madrid must find a way to hold this coalition together while taking resolute action that will meet Mexico's debt service obligations.

Although the current crisis will place serious strains on the system, some demonstrations and other incidents are likely. Two recent unauthorized demonstrations serve as a warning of social tensions. We believe Mexico should continue to experience reasonable stability over the medium term. The role of the Mexican armed forces will be important in providing the backing for the President's actions. De la Madrid appears to have their strong support. Thus far, he has also demonstrated keen political acumen and considerable economic skills in preserving the coalition of key interest groups essential to continued Mexican stability.

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MARITIME BOUNDARIES TREATY

The U.S.-Mexico Maritime Boundaries Treaty establishes maritime boundaries out to 200 nautical miles from the coast. The Treaty, signed in 1978 and ratified by Mexico in 1979, has not yet been approved by the U.S. Senate. In the meantime, the same boundaries have been enforced provisionally on the basis of a 1976 Executive Agreement.

The boundaries delimit both fisheries and continental shelf jurisdictions. In the Pacific, the Treaty would recognize U.S. jurisdiction over important fishing grounds as well as the principal sea lanes approaching San Diego. In the Gulf of Mexico, the Treaty would recognize Mexican jurisdiction over some deep water areas with future petroleum potential.

In 1980, the Foreign Relations Committee unanimously approved the Treaty. However, before the full Senate could act, a U.S. geologist charged the Treaty was a "give-away" of U.S. hydrocarbon interests in the deep waters of the central Gulf. At Senator Boschwitz' behest, floor action on the Treaty was deferred until such charges could be studied. The Treaty has remained under consideration in the Senate.

In 1981, the U.S. Geological Survey completed a report which noted that the oil and gas potential of the area left to Mexico could not be determined. The technology needed to drill in the deep waters of the Gulf has not yet been developed.

Senator Percy is again willing to schedule additional hearings (postponed from May 1982 at the Department's request) and to support the Treaty, but the Administration has yet to determine its position. The relevant bureaus in the Department of State support the Treaty. State is awaiting the views of the Department of Interior and needs to assess the likelihood of success before pressing for Senate action.

Mexican officials have repeatedly asked if the Department is urging the Senate to approve the Treaty. The most recent such query was made during Assistant Secretary Malone's March visit to Mexico City and was raised in connection with discussions on a possible maritime research agreement. Department and Embassy officials have sought to deter any possible Mexican effort to link U.S. approval of the Treaty with the negotiation of such an agreement which is of great interest to the USG and our scientific community.

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Caribbean Basin Initiative

President Reagan presented his Caribbean Basin Initiative in a speech at the OAS in February of 1982 and sent legislation to Congress in March. The House passed it in December of 1982, but the Congressional session lapsed before it reached the Senate floor. The legislation was resubmitted on February 22, 1983, and was passed by Congress on July 28.

The CBI consists of three elements. The first is a twelve-year one-way free-trade arrangement for all goods produced in the Caribbean Basin, except for textiles, apparel, canned tuna, leather goods, shoes and petroleum products.

The second element would allow US citizens attending business conventions in the Caribbean Basin to deduct the reasonable expenses incurred from their income tax. Before a country can qualify for this "North American" treatment, it will have to enter into an executive agreement with the US on the exchange of tax information.

The third CBI element involves foreign assistance. The last session of Congress approved a supplementary FY 82 request of $350 million in Economic Support Funds for emergency balance-of-payments aid. These funds have been totally obligated. In general, aid levels to the CBI region have doubled since 1980.

The CBI legislation lists 27 potential beneficiaries and sets forth a variety of criteria - dealing with self-help efforts, expropriation, trade practices, etc. - which the President must consider in deciding which countries will benefit. Following Congressional passage and Presidential signature, the designation process will begin. We currently plan to have two groups from Washington visit Basin countries, beginning in late August. The purpose of these trips will be to discuss with the various governments the nature of the legislation and how the designation criteria may be met.

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ENVIRONMENTAL COOPERATION

There are a number of cooperative environmental mechanisms already in place, but the nature and pace of environmental problems suggest the need for new approaches. The USG and US border states are especially concerned about immediate sanitation problems along the border (see separate background paper, "Unresolved Border Sanitation Problems").

There are also significant and unresolved border air pollution problems, such as those at Ciudad Juarez/El Paso and Tijuana/San Diego, and EPA has been pressing unsuccessfully for joint monitoring. Our Embassy is concerned about serious air pollution problems in Mexico City. A potentially serious environmental problem involves shipments of hazardous wastes.

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Following the conclusion of a 1980 maritime spills agreement, EPA and its Mexican counterpart agency suggested negotiation of a similar response mechanism for accidental spills of hydrocarbons and hazardous substances along the inland boundary. Exploratory talks on a US draft inland spills agreement led to a Mexican counterproposal for a much broader arrangement, a treaty on border environmental cooperation.

The USG has agreed in principle with the idea of a new environmental executive agreement (not a treaty) as an umbrella covering existing and future bilateral environmental mechanisms. Such an agreement might reinforce our joint efforts to address border sanitation and other environmental problems, particularly if it results in more GOM attention and public funding toward their resolution. It could also assist US technical agencies carry out activities in certain natural resource management areas of special interest (e.g., national parks, arid lands, plant germplasm and wildlife).

Several weeks ago we made detailed comments on the original Mexican concept, including proposals that any new agreement also cover cooperation on resource management and not be limited to the border zone. In the absence of substantive Mexican reaction to our comments, we provided the GOM a draft text of such an agreement on July 25.

On July 27 the Foreign Ministry provided our Embassy with a new Mexican draft text which evidently crossed ours of July 25 and is far apart from it: GOM wants (1) a treaty, not an executive agreement, (2) to limit to border region, (3) to only deal with pollution, with possible separate agreement on resource management, (4) the U.S. to accept provisions on pollution from military bases and/or nuclear contamination which are unacceptable.

While the Mexicans have now suggested negotiations in early August, chances are not good for conclusion of an acceptable agreement before the meeting of the two presidents.

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UNRESOLVED BORDER SANITATION PROBLEMS

Our renewed efforts since late 1981 to obtain Mexico's cooperation to stop sewage flows into the United States have been only partially effective. Mexico was not giving high priority to resolving border sanitation problems even before its current economic problems began, in spite of treaty commitments, International Boundary and Water Commission (IBWC) recommendations approved by the two governments, and high-level US diplomatic representations. With the onset of Mexico's economic crisis last year, even the modest accomplishments resulting from these efforts were set back. Seriously polluted waters increasingly threaten the health and well-being of peoples on both sides of the border at Tijuana, Mexicali, Nuevo Laredo and Nogales.

At Tijuana, a critical part of corrective works under construction was suspended in December 1982 when funds ran out. Although new funding is reported to have been allocated by the Secretariat of Urban Development and Ecology, the responsible domestic agency, construction has not yet been resumed. These works, when completed, will help with immediate needs at Tijuana, but will not resolve the upcoming problems there. Corrective works at Mexicali, Nuevo Laredo and Nogales have also been stopped or slowed down for lack of money. The GOM proposes taking a step-by-step approach which would result in only partially correcting the problems. The GOM has yet to indicate its willingness or ability to provide the large amounts of money needed to resolve the problems in the future.

US IBWC Commissioner Joseph Friedkin estimates that as much as $200 million may be needed for construction of sewage treatment and disposal works in Mexico to resolve the worst problems along the border for the next 10 years. The Commissioner estimates that the cost would be doubled if such works were to be built in the United States under a unilateral approach funded by the US Congress.

Ambassador Gavin wrote to Foreign Secretary Sepulveda on June 7, 1983, stressing the seriousness of the situation and the need for a broader approach to the problems than the piecemeal method taken by Mexico in the past. The Ambassador suggested the possibility of Mexico seeking a multilateral development bank loan to construct facilities over the next 10 years which would resolve all the problems along the border. On July 27, the Foreign Ministry agreed with our proposal that, as a first step, the IBWC arrange a bilateral meeting at Ciudad Juarez on August 4-5 to evaluate these problems and to develop a cost estimate for their correction.

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Summary of Agricultural Issues

Mexican Trade Restrictions: Most U.S. agricultural products, other than basic necessities imported by CONASUPO, the Mexican Government's food supply agency, face severely restricted access to the Mexican market. Since Mexico is not a member of GATT, import duties are frequently charged and are often set at high levels. Furthermore, Mexico requires prior import licenses for virtually all agricultural imports. By failing to make the licenses available, Mexico effectively limits the quantities of imports considered competitive or non-essential. This is also in keeping with Mexican policy to restrict imports to combat its economic crisis.

Citrus Canker: USDA banned U.S. imports of Mexican citrus in July 1982 with the detection of an outbreak of citrus canker in Mexico. In January, U.S. import regulations were modified to allow Mexican citrus to enter the U.S. under precautions necessary to protect the U.S. citrus industry. Since that time regulations governing the entry of Mexican citrus into the U.S. have been progressively liberalized, and we expect further liberalization if no new outbreaks of citrus canker occur. The USDA has been working closely with its counterparts in Mexico on citrus canker, and a joint two-year research agenda has been adopted. The Government of Mexico has, however, delivered a note protesting the import restrictions to the U.S. State Department.

Table Grapes: California's table grapes are subject to minimum quality requirements under a U.S. marketing order. In October 1982, Section 608e of the Agricultural Marketing Agreement Act of 1937 was amended to make imported table grapes subject to the same order. As a result, from May though August, U.S. imports of Mexican grapes will be subject to the same quality standards as grapes from California's Coachella Valley.

GSM-102 Financing: On February 16, 1983, Secretary Block signed the 1983 agricultural supply agreement with Mexico. The agreement provides $1.7 billion in credit guarantees from USDA's Commodity Credit Corporation (CCC) under the GSM-102 program for sales of agricultural products abroad. $520 million of this amount has been set aside for use in the first quarter of FY 1984. On July 20, the Budget Review Board decided to defer to the President on Mexico's request for $500 million in additional CCC credits for FY 1983. Ambassador Gavin, Treasury, USDA and State had supported the increase and the matter is now before the President for decision.

Dairy Donations: Under Section 416 of the Agricultural Act of 1949 (as amended), the CCC has donated 20,000 metric tons of non-fat dry milk, 6,460 tons of butter oil and 4,000 tons of cheese to Mexico for food asssistance to the needy. An additional 577 tons of dairy products were donated to private voluntary agencies and another 4,700 metric tons donation is pending U.S approval.

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Latin American Debt Problems

There are growing fears that the international monetary system is returning to the crisis atmosphere of late 1982. Various Latin American countries continue to face difficult economic situations. Falling oil prices have exacerbated the debt problems of Mexico, Peru, and Venezuela, though the recent stabilization of prices may relieve this burden. Governments sensitive to the increasing political costs of austerity measures will be under more pressure to resist them.

The international financial system has dealt successfully with the initial challenges posed by the debt crisis in Latin America, and we are actively involved in efforts to strengthen the system. The IMF quota increase, the broadening of the General Arrangements to Borrow, and increased consultation with other industrialized countries are part of this strategy. The U.S. believes that a combination of broadening economic growth in the industrialized world, lower interest rates, appropriate adjustment policies, and the type of measures mentioned above will go a long way toward alleviating external indebtedness.

Nevertheless, political needs have led certain governments to seek support for some form of coordinated Latin American action with respect to external indebtedness. Suggestions have included joint negotiations with commercial bank creditors, declarations of unilateral moratoria on the repayment of principal and perhaps interest, or at worst, collective outright repudiations. Mexico does not favor such a debtors' cartel.

At Venezuela's initiative, the OAS has convoked a specialized conference on external financing in Caracas from September 5-9. There is concern that the conference will become the launching pad for a debtor's club. However, many Latin American financial officials, among others, recognize that drastic debtor action, individual or collective, would impose severe costs on the debtors. Credit would dry up, trade would become a near impossibility, and domestic adjustment programs would become more painful and disorderly.

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FISHERIES

Mexico proceeded to enforce its claim to 200 mile jurisdiction over tuna following the breakdown of negotiations on a multilateral tuna regime for the eastern Pacific. Mexico's seizure of six US tuna boats in July, 1980 resulted in a legislatively mandated US embargo on tuna imports from Mexico, potentially valued at $50 million annually. Several vessels have been seized since 1980, most recently in July, 1983. In the absence of an agreement assuring US tuna boats access to the zone claimed by Mexico, the embargo remains in effect.

Recently, we concluded a regional tuna licensing agreement with Panama and Costa Rica that will enter into force upon ratification by five coastal nations of the region. Were Mexico to accede to this agreement, the tuna embargo could be lifted. The Mexicans, who are apparently uninterested in joining the agreement at the present time, presented their position for reaching a separate tuna fishing agreement during Secretary Shultz's visit to Mexico in April. The Mexican negotiating position is unacceptable to the USG, and any effort to negotitate a separate agreement prior to ratification of the regional agreement would undercut the latter.

Thus, the U.S. and Mexico remain locked in their dispute over highly migratory tuna. The U.S believes that tunafishing can be effectively managed only by multilateral agreement. The U.S. position is contained in the Magnuson Fishery Conservation and Management Act of 1976 (MFCMA), and it is confirmed by the recent Presidential Proclamation establishing an Exclusive Economic Zone. Ambassador Gavin is working directly with the Mexicans in an effort to move the U.S. and Mexico closer to a solution to the tuna problem.

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LEGAL COOPERATION

Because of geographic proximity and other factors, U.S. and Mexican law enforcement interests will inevitably continue to affect the nature and quality of overall bilateral relations. This reality offers a challenge to our respective governments to accommodate each other's law enforcement needs as harmoniously as possible. Such accommodation can best result if each government's actions in the law enforcement field are firmly based upon the mutually shared principles of: (i) reciprocity of assistance; (ii) routine coordination and consultation between our law enforcement authorities; (iii) when necessary, conclusion of bilateral agreements and arrangements to regulate specified areas of law enforcement cooperation, and; (iv) good faith implementation of such agreements and arrangements.

The current record of U.S.-Mexican reciprocal cooperation on law enforcement matters remains good but there are some uneven elements. Legal cooperation between both countries on such areas as deportation, customs matters, and the transfer of Mexican and U.S. prisoners under the U.S.-Mexico Prisoner Transfer Treaty has been good. Our law enforcement offices in Mexico have found cooperation with Mexican authorities much more forthcoming than has been the case in recent years. In addition, on June 28 both governments exchanged instruments of ratification of the 1981 Stolen and Embezzled Vehicles and Aircraft Convention. The Convention has now officially entered into force. However, extradition and mutual legal assistance are areas where legal cooperation remains a problem for political reasons and because of differences in legal systems.

Recent efforts to reopen negotiations on a Mutual Legal Assistance Treaty with Mexico were unsuccessful because of differences in our constitutional systems (Mexico does not permit cross-examination). Instead, the GOM expressed interest in discussing an agreement for mutual legal assistance in limited areas of criminal investigations of interest to it.

Before pursuing such a limited (or narrow) agreement on criminal investigations, the Departments of State and Justice would like the GOM to consider reviewing pending overall law enforcement matters. The GOM advocates ad hoc treatment of legal issues, and while it might be open to further discussions, it has indicated that its views are generally well established.

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BORDER REGION COOPERATION AND DEVELOPMENT

Mexico's economic crisis has had severe repercussions on both sides of the border, where commercial activity has declined since mid-1982. One of the few bright spots and one which most clearly represents the interdependent border relationship is the Mexican in-bond industry program (maquiladoras), which involves largely US-owned, labor-intensive manufacturing and assembly plants operating on the Mexican side. Both sides understand the need for cooperation on border issues. We believe a healthy border economy requires bilateral cooperation. President de la Madrid has taken special interest in the development of the border region. Many Mexicans, however, favor closer integration of the Mexican border region into the national economy and are wary of a U.S. initiative that may compromise this goal. Although no mechanism has yet been established for bilateral consultations on in-bond issues, this activity is potentially of great commercial importance to both Mexico and the United States, especially to our border communities.

In-Bond Industry: Mexico is currently the world's second largest in-bond producer, with 600 in-bond plants employing about 129,000 workers. The assembled goods are exported mainly to the US and consist primarily of electronics (70%) and wearing apparel (10%). The border industry program, benefiting from lower labor and materials costs in Mexico, accounts for about $1 billion annually in exports to the U.S. and offers Mexico an excellent opportunity to attract sorely needed foreign capital. In-bond issues are of great commercial importance to both countries.

Bridges and Border Crossings: The 1982 Border Relations Action Group, a temporary group under the Binational Commission, improved procedures for study and decision-making on new or replacement international bridges and border crossings. Implementation of these procedures is expected to be completed following the recent reorganization of some government agencies under the new de la Madrid Administration.

Customs and Transportation: Currently, transportation and customs facilitation issues are handled under various mechanisms. The bilateral Customs Conference, established in 1977, has made progress in coordinating work hours at the border and reducing delays in border clearances. The Transportation Working Group of the US-Mexico Joint Commission on Commerce and Trade has been discussing trade-related transportation issues since mid-1981, including an attempt to get Mexico to fully implement its law allowing reciprocal access for truckers within the 20 kilometer "border zone".

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Wide Range of Border Cooperation: Over the years the two governments have established a wide range of arrangements to promote border cooperation such as: boundary and water questions under the joint International Boundary and Water Commission (IBWC), cooperation in cases of natural disasters (FEMA), maritime oil spill contingency response (USCG), environmental cooperation and a notification system for exports of hazardous wastes (EPA), cooperative planning on housing and urban development (HUD), and border health programs (HHS/PHS).

Working Group on Southwestern Border States: At President Reagan's request, a Working Group on Southwestern Border States has reviewed current economic impact upon U.S. border counties resulting from economic problems in Mexico. The Working Group, chaired by Commerce, was composed of representatives from State, Treasury, Justice, Labor, HHS, HUD, OMB, the Small Business Administration and representatives from various White House offices. The Working Group has presented recommendations to the White House Office of Cabinet Affairs which generally involve expanding benefits of existing government programs to border counties in Texas, New Mexico, Arizona and California.

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Immigration

The porosity of our southern border has long been considered by Mexico to be a "safety-valve" through which social and economic pressures flowing from chronic un- and underemployment are defused. To this "push" factor impelling emigration must be added the "pull" of jobs and much higher wages in the U.S. Many hundreds of thousands of Mexicans cross our border illegally every year to find employment. Over 887,000 -- including multiple repeaters -- were apprehended and returned to Mexico in FY-82. Many others remained, and apprehensions have risen markedly this year. Mexicans now constitute about half of our total illegal population, estimated variously at between 4 and 14 million. The number of two-way legal U.S.-Mexico border crossings each year now exceeds 200 million.

Current legislative efforts by Senator Simpson and Congressman Mazzoli to limit illegal immigration would impact heavily on Mexico. They would effectively limit job opportunities by penalizing employers who knowingly hire illegals, improving border enforcement, and subjecting persons here illegally after a certain date to deportation. On the other hand, the bills would offer phased legal status to millions of Mexicans here before that date, and would eventually benefit their close relatives. Possible changes in the legal migration system might also benefit Mexico.

Officially silent on the bills, the Mexican government acknowledges our sovereign right to control our borders. It has clearly indicated, however, that it much prefers the status quo, especially during these harsh economic times. It wants to be kept informed. It has told us that it does not wish to discuss the matter with us formally, because it would thus assume responsibility for taking measures to control emigration, which it is not prepared to do. We in turn would like Mexican neutrality on Simpson-Mazzoli (i.e., for the Mexican government to refrain from interfering in the U.S. domestic debate on immigration). Last December, a Mexican Senate resolution, engineered in part by some Mexican-American leaders, opposed the legislation and castigated the "unilateral" way in which it was being considered. Mexico is itself subject to strong illegal immigration pressures from Central Americans on its southern border, a problem it is addressing quite "unilaterally."

Both Simpson and Mazzoli have visited Mexico. Mexican leaders, including de la Madrid and Foreign Secretary Sepulveda (when he was Ambassador here), have been briefed on the legislation, which has passed the Senate and is awaiting House floor action.

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BILATERAL TRADE ISSUES

Joint Commission on Commerce and Trade (JCCT): Presidents Reagan and Lopez Portillo established the JCCT in June 1981, to manage and resolve bilateral economic/commercial issues. The Secretary of Commerce and the U.S. Trade Representative jointly chair the JCCT. The full Commission has met only once, in September 1981, although the Technical Secretariat and various work groups have met several times, most recently in mid-July.

Subsidies/Countervailing Duties: U.S. trade statutes require that countervailing duties be levied against imports benefiting from subsidies as defined in our law. If the Department of Commerce determines there is a countervailable subsidy, an offsetting duty must be imposed, whether or not the import causes injury to the U.S. industry. Fifteen countervailing duty cases, with a total value of more than $150 million, have been brought against Mexico. Unless Mexico undertakes obligations substantially equivalent to the GATT Subsidies Code, it cannot be designated as a country under the agreement and thereby receive the benefit of an injury test in U.S. countervailing duty cases.

During the fall of 1982, the United States and Mexico held intensive but ultimately unsuccessful negotiations for a bilateral subsidies agreement. One week prior to the arrival of the Mexican delegation for the July 1983 meetings of the Technical Secretariat of the JCCT, we received a new Mexican proposal for an agreement. While Mexico's proposal addresses some of our earlier concerns, it falls short in a number of key areas. For example, it contains no provision for dispute settlement and no automatic termination clause. Therefore, we informed the Mexicans that we would need at least four or five weeks for Congressional and private sector consultations before we would be able to negotiate on the proposed agreement. The Mexicans are expected to voice their displeasure that signing of an agreement was not possible in time for the August 14 presidential meeting.

Generalized System of Preferences (GSP): The current GSP program terminates January 3, 1985, and we have submitted legislation to renew it for another ten years. Our renewal proposal contains modifications that would lead to the staged removal, or "graduation," of some products from the program (likely to include some Mexican products) as well as the opportunity for expanded GSP benefits in return for improved access for U.S. exports. Stiff opposition to GSP renewal is expected on the Hill. In 1982 Mexico's GSP exports to the U.S. totalled $600 million, or about 7.0 percent of our total GSP imports.

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Textiles: As a result of a surge in Mexican exports in January and February, the U.S. has requested and held one round of consultations under our bilateral textile agreement on category 604, plied acrylic yarns. There has been no agreement to date, but we think the issue is unlikely to surface as a separate issue at the Mexico meeting.

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U.S. Private Investment in Mexico

U.S. private investment in Mexico, which dipped to an estimated $5.6 billion in 1982, could continue to provide an important capital resource. Mexican President de la Madrid has stated that Mexico needs increased inflows of foreign capital to weather the current economic crisis, and recently acknowledged publicly a GOM shift toward a somewhat more welcoming stance on foreign investment. Both we and the Mexicans stand to gain from efforts to improve the Mexican investment climate and to achieve greater consistency in establishing and administering investment laws in Mexico.

For short term foreign investment growth, Mexico needs to reestablish investor confidence, which has been shaken by currency controls (now lifted), foreign exchange shortages, reported discrimination against foreign firms in exchange allocations, and nationalization of Mexican banks. In the longer run, investment growth will depend on the degree of emphasis the GOM places on its goal of "Mexicanization" of the economy. Under the 1973 Law for the Promotion of Mexican Investment and Regulation of Foreign Investment, the GOM exercises strict control over foreign direct investment through a combination of incentives and requirements (such as export and local content performance requirements and restrictions on employment and equity participation, i.e., Mexican majority ownership). Although some flexibility has been increasingly evident, particularly for border industries and large investors, controls have been extended to a growing number of sectors in recent years.

Treatment of foreign investment is a potentially explosive topic for the GOM, going to the foundations of Mexico's revolutionary doctrine. Domestically, de la Madrid apparently believes that he has relatively limited political maneuvering room. In early contacts with U.S. business, de la Madrid indicated that his Administration would apply exisiting investment laws pragmatically but would be constrained from making any formal changes in Mexicanization laws governing foreign investment. This has not been significant enough to allay the concerns of American businessmen. Multilaterally, Mexico's G-77 advocacy also limits Mexico's politically-viable options.

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Nonetheless, the GOM recognizes that foreign investment provides needed capital, technology and production facilities (an estimated one-third of Mexico's manufacturing output is produced by American firms). To attract and retain foreign capital, the GOM needs to send a strong positive signal to U.S. investors. We should encourage de la Madrid's understanding of the need for further confidence building action and continued bilateral discussion of investment issues.

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North/South Issues

The U.S. approach to the developing nations on economic issues is based on our belief that economic development is best achieved through the development of sound domestic economic policies coupled with appropriate reliance on the private sector and free market programs. We prefer to pursue an issue-by-issue approach to resolve economic development problems rather than to talk in terms of wholesale change or radical reform.

There exists a fundamental difference between most developing countries, individually and in groups, and the U.S. over the causes of underdevelopment and their cure. In the multilateral arena the developing countries have demanded massive transfers of resources from the developed countries. These would be achieved through preferential trade and financial arrangements in a radical reform of the international economic system -- a New International Economic Order (NIEO). While the U.S. has been able to reach accommodation on specific issues with a number of developing countries on a bilateral basis, political pressures have hindered a significant meeting of the minds in the multilateral arena.

The most significant recent event in the ongoing dialogue between the North and South was UNCTAD VI, where the developing and developed nations presented their philosophies of trade and development. Led by a firm stance by the U.S., the developed countries stood firm in the face of developing country demands. The latter countries acquiesced in the end to resolutions acceptable to the U.S. in almost all cases, while expressing disappointment afterward about the "meager results" of UNCTAD VI.

The concept of global negotiations, which had been a key developing country goal, has been de-emphasized at least temporarily, in view of the perceived need to resolve immediate economic problems brought on by the global recession. This was a key feature of the G-77 position at UNCTAD VI. It would be unrealistic, however, to think that because of this the developing countries demand for an altered global economic system has been abandoned. Mexico was among the influential countries at UNCTAD which were disappointed with the position taken by the U.S. It strongly supports the NIEO.

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CENTRAL AMERICA

The United States and Mexico share a concern over reducing the level of violence in Central America, but differ over how this might be accomplished. The Mexicans have often favored left-wing or revolutionary groups and consider themselves, with considerable justification, to have played a key role in the success of the Sandinista revolution in Nicaragua. The Mexicans argue that stepped-up pressure on the Sandinistas will drive them toward further totalitarian excesses. The Mexicans also have called for power-sharing negotiations to resolve the conflict in El Salvador.

Mexico's preferred approach has been to encourage direct negotiations between the rebels in El Salvador and the government, and between Nicaragua and Honduras. Such an approach has been a key element in their participation in the Contadora process. Mexico's preference for direct negotiations has often favored Nicaragua. Foreign Secretary Sepulveda has been particularly concerned that the current level of violence between Nicaragua and Honduras will lead to war unless the conflict is quickly resolved. He has been very critical of U.S. naval deployment off the Nicaraguan coast. We, of course, prefer a comprehensive approach to regional violence, one which would involve democratization and which would encompass the basic principles enunciated in the San Jose Declaration. The Mexicans deny that there is significant Nicaraguan support of the Salvadoran rebels.

During Secretary Shultz' visit to Mexico City on April 18-19, each side outlined its respective policy toward Central America. Although there was no meeting of the minds, the Mexicans made it clear that they remained concerned with the impact of regional violence on their national interests and that they were amenable to accommodation of U.S. and Mexican policies toward the region. More recently, in the Cancun Declaration issued by the Contadora Four in mid-July, Mexico joined in the strongest statement yet by the Four in support of democratic institutions. The Cancun Declaration also enumerated a number of principles of international relations which bear strong resemblance to the San Jose principles. It was, therefore, more supportive of a multilateral approach to resolving regional conflict than were previous Contadora statements. Nevertheless, the Mexicans continue to be supportive of the Nicaraguan outlook within the Contadora forum.

It is too soon to tell whether President de la Madrid's signing of the Cancun Declaration represents an evolution in Mexican policy toward Central America. It is also too soon to tell whether the Contadora effort will succeed in reducing regional conflict, although prospects are limited given the magnitude of the problem. In any case, Mexico's policy toward the area is likely to continue to be driven by the feeling that social and economic problems, rather than outside interference, lie at the root of the region's instability and that these problems can best be addressed by revolutionary regimes. The Mexicans also believe that their own revolutionary credentials, as well as their timely support for the Sandinistas, enhance their rapport with revolutionary groups or regimes and give them the possibility of guiding revolutionary change in a way that does not threaten Mexican interests.

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