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SUMMARY

During recent weeks there have been indications that the Lopez Mateos administration has decided, presumably to keep "national unity" on an even keel, that it should make certain gestures and take specific actions favorable to the Left. In this connection, Lopez Mateos' reiterated appeals for "national unity" are to be regarded, particularly now that preliminary maneuvers have begun with respect to the next presidential elections (1964), as attempts to neutralize both the extreme Left and the so-called Right, and to strengthen Lopez Mateos' own brand of "left of center" politics.

Typical of these recent indications have been (a) the reported renewal of contact between Lazaro CARDENAS and Lopez Mateos, and Cardenas' public appearance with the latter at the Cupatitzio inauguration of electrical power facilities; this has been interpreted by the Communist press as an "alliance" between the two against Miguel ALEMAN and the conservative elements he represents (Embassy's A-293, August 31, and A-339, September 12); (b) the exclusion, for reasons not yet clear, of Aleman from a second major power-plant inauguration; this one at Mazatepec, Puebla, on September 18, despite earlier announcements in the official newspaper, El Nacional, that Aleman would be a member of Lopez Mateos' party at the ceremony (Embassy's A-371, September 14); Lopez Mateos not only appeared at Mazatepec with Cardenas and Ruiz Cortines, but added Cardenas' pro-communist

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son, Cuauhtemoc, to his official party, while dropping Aleman from a ceremony in what is practically Aleman's "home territory" (the Puebla-Veracruz border area); (c) the "election" of Javier ROJO Gomez, long-time Cardenista and member of the Movimiento de Liberacion Nacional (MLN), as Director of the powerful Confederacion Nacional Campesina (CNC) (A-332, September 11); and (d) the announcement included in Lopez Mateos' annual Informe of September 1 to the effect that firms mining coal in Mexico under a 1930 law but without more recent, and more restrictive, Government concessions (which require that 66 per cent of any coal-mining firm be owned by Mexican nationals) must now apply for such concessions (A-299, September 4, and A-382, September 14). The decree on coal mining was apparently aimed largely at the American Smelting and Refining Company and jeopardizes the investment of that firm in Mexico.

These maneuvers to the left, both in the economic and political fields, on the part of Lopez Mateos represent what appears to be a general leftward drift characteristic of the present administration. It is true that at times Lopez Mateos and his government make subtle moves (but rarely public statements) designed to appease the more conservative elements of Mexico, even including actions that give the appearance of favoring the anti-communist Frente Civico, headed by Aleman and Abelardo RODRIGUEZ (A-349, September 13). Such moves, however, are always carefully negated by counter-balancing maneuvers and public statements attractive to the political Left and pro-communists. This sort of zigging and zagging is perhaps natural to Lopez Mateos, who sees in such counter-balancing the source of his unchallenged leadership, essential to keeping the diverse elements of the Partido Revolucionario Institucional (PRI) firmly within the one-party machine and personally loyal to him.

There seems little question, however, that this elaborate system of see-sawing to minimize any meaningful challenges to himself and the PRI does not, in fact, represent a real "central" balance, but rather a continued drift leftward. This drift to the left

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is more perceptible in the economic and social fields (i. e., in the undoubted move toward increased public-sector industrialization, and in greater control over, and harassment of, private enterprise) than in the political arena, where in the absence of meaningful political debate, only subtle and ever-changing personal relationships are the clues to the ideology of the Lopez Mateos administration. Mexican nationalism, always intense and, indeed, chauvinistic, and particularly economic nationalism, rooted in vague but, among Mexican politicians, unassailable "ideals" of the Mexican Revolution and itself inclined toward the Left, is the framework within which Lopez Mateos operates. He and his administration regard, in fact pride, themselves as being the government most dedicated to "social reform" and "public sector planning" since that of Lazaro Cardenas, and Lopez Mateos is known to hope his record in these Revolutionary sectors" will surpass that of Cardenas.

MEXICAN ECONOMIC NATIONALISM

Nationalism in all of its forms, but particularly economic nationalism, is, in the eyes of the PRI and the current administration, the unifying political force in Mexico. The continuing "Revolution", to whose well-established "social reform" principles all politically ambitious Mexicans must adhere unquestioningly, is the focus for Mexican nationalism. The "Revolution", moreover, provides all the necessary mythology to support Mexico's one-party, highly centralized Government which, above all, alleges it is dedicated to alleviating the lot of the great mass of a backward, under-fed, poverty-stricken population.

The "Revolutionary Governments", as the administrations since the Revolution have been called, have to a greater or lesser degree, depending on the presidential incumbent, been impelled along the road of economic planning to secure "social justice" for the masses. They have evolved a doctrine of "state-ism", professing that the state on behalf of the people must itself bring progress

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to Mexico and that, inferentially, private enterprise, especially foreign investors, cannot be trusted to work patriotically toward Revolutionary goals. Official economic thinking is certainly influenced by leftist politicians, so-called social reformers, and university-trained Marxists, but it stems in large measure from ingrained and inherently Mexican fallacies about "economic independence", mistrust of private capital, and the need for ever-expanding public-sector control of the economy to fulfill the goals of the Mexican Revolution.

Under this dominant mythology, the image of private enterprise in the society has inevitably been tarnished. Private capital has been thought by bureaucratic Revolutionaries to be subservient to foreign "imperialism", a tool of the Church and arch-reactionaries, both of which offer a direct challenge to the Revolution. Partly because this official attitude increases the risk for investment capital, the private sector in Mexico, traditionally out for a "fast-buck", has looked for investments with a quick turn-over and inordinately high profit possibilities and has, therefore, contributed to a vicious circle of continued government intrusion and private-sector chicanery which has done little to enhance the latter's public posture. Mexican politicians have therefore found it easier to press for increased emphasis on public-sector control of basic activities regarded as too essential to the economy to be trusted to private enterprise.

While there is no question that the private sector of the Mexican economy will continue to exist, the policy of "Mexicanization" under which 51 per cent of all new investments will ideally be in the hands of Mexican nationals, the continued government regulation -- indeed harassment -- of private investment, and the comparatively more rapid expansion of the public sector cast some doubt as to the long-term prospects for investor confidence and private-sector growth. The challenge to the private sector is particularly pointed because of the methods used by the Government to expand its control over the economy. Expropriation, direct or indirect public participation in a broad range of industrial, service, and

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service, and primary production activities, and the continued Mexicanization demands on U.S.-controlled investments, already being done through "squeeze plays" by which unscrupulous Mexican politicians obtain a piece of the investment for themselves or their associates, are practices that can be expected to continue.

The goal of investment designed to achieve import substitution -- much of which investment is programmed for public-sector control -- and aimed at an almost pathological ambition to attain a favorable merchandise trade balance motivates much of official Mexican economic thinking. This situation will undoubtedly continue to dampen the prospects both for U.S. investors who face the 51 per cent Mexicanization problem coupled with government controls and for U.S. suppliers who may encounter some shrinking in demand in their Mexican markets, although not nearly so much as Mexican economic planners hope for.

Direct actions which U.S. investors can expect have been underlined recently by (a) the cancellation of the coal-mining concessions in which the Government showed itself willing to repudiate its own earlier laws to support a new drive toward Mexicanization and an increasingly centralized control of the industry, and (b) some expropriations of agricultural lands owned by U.S. citizens which may be the opening of a new program of land distribution, particularly affecting holdings by U.S. citizens in northern Mexico, and designed to meet growing agricultural and ejido problems of increasing political importance to the Lopez Mateos administration with the approach of the next presidential election.

THE EASE OF MOVING LEFT

Given the Revolutionary catechism on which Mexican nationalism is based and in which Mexican politicians are schooled, it is to be expected that such politicians will find themselves inclined to look toward the Left in seeking solutions to Mexico's problems. Lopez Mateos himself is certainly drawn in this direction and, if he were to find it possible to free himself from

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political and economic realities, might well be expected to move even farther to the Left. There is, among many Mexican politicians, a feeling that Mexico's future -- and theirs -- lies in moving to the Left. It represents for these men an area in which they believe they can best work for the extension of Revolutionary maxims, presumably to the benefit of larger and larger numbers of the poorer classes for whose improvement they publicly hold themselves to have assumed responsibility.

In the eyes of these Revolutionary politicians, the "Right", as they call any conservative trend, admittedly sometimes manipulated by extreme elements, is clearly past, and unhappy, history. Most solutions of a conservative nature designed to meet Mexican problems evoke memories of historical persons or institutions still regarded as arch-enemies of the Revolution. For the practical politician, however, the Revolutionary mythology will permit some minor appeasement of the so-called Right so long as the Revolution itself is in a dominant position. All claims that the "Right" has changed and developed a social conscience are, in ruling political circles, completely disbelieved and easy to reject with the familiar attack words, "reaction" and "imperialism".

Nonetheless, practical politics in Mexico, of which Lopez Mateos is an artful practioner, does require of a politician that he adopt a "zig-zag" course in order to prevent irreparable schisms from occurring in the one-party structure. This means that a successful administration must carefully balance off, and cater to, both wings of the PRI, which represent "the extremes" within the statist and nationalistic framework of the Mexican Revolution. It is important for us to realize, however, that these "extremes" are not too far apart, that in spite of their differences they are concerned primarily with keeping their ever-winning party intact, and that, the so-called Right itself being left-of-center by our terms, the entire "spectrum of extremes" within the PRI and the government ranges only from the mildly to the extremely Left.

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It is with this background that the Lopez Mateos' most recent zig to the Left is viewed by many observers of the Mexican political scene. Most of the maneuvers to the Left executed by Lopez Mateos recently have had to do with Lazaro Cardenas, chief figurehead of the Communist-dominated MLN, and living symbol of leftist-nationalism. Although Cardenas' stature as a public figure diminished during 1962, largely because of the appearance of many young and ambitious politicians since his time of power, almost a generation ago, Lopez Mateos has recently taken steps, the result of which is to lend renewed prestige to Cardenas. The inclusion of Cardenas at the inauguration of electrical power facilities at Cupatitzio, Michoacan on August 14 and at Mazatepec, Puebla, on September 18 (excluding Cardenas' arch-rival, Miguel Aleman); the reports of continued meetings between Lopez Mateos and Cardenas at Mexico City; the generally favorable public opinion arising in connection with Cardenas' honest and efficient handling of the multi-million dollar Rio Balsas project which he heads; and the appointment of the Cardenista Rojo Gomez as Director of the highly important Campesino sector of the PRI, all illustrate Lopez Mateos' recent tacking to the Left.

On the foreign policy side, Lopez Mateos indicated in his Informe of September 1 that it is Mexico's intention to continue recognizing Castro Cuba and to oppose collective action against Cuba by the OAS. Clearly, Mexico will continue to take refuge in juridical interpretations of applicable treaties to hinder action and to seek continued non-intervention with respect to Cuba. This action, again for the benefit of Mexican domestic Left, is taken in the face of actual provocation by the Cubans -- some of it very recent -- and of knowledge in high quarters, and in the hands of Lopez Mateos himself, of Cuban subversive activities within Mexico.

There is, perhaps, no fully satisfactory explanation of why Lopez Mateos took another step to move Mexican policy on a zig to the Left at this particular time. It would appear, however, that the publicity which has accrued personally to Miguel ALEMAN

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and to his anti-Communist Frente Civico during 1962, the natural dividend presented to more conservative groups by the success of the Kennedy visit (with its consequent "imperative" that Lopez Mateos prove that, while a gracious and friendly host, he did not "sell out" to the United States), and the need, before the presidential elections of 1964, to weld firmly into the ranks of the PRI the agrarian sector and other areas in which Lazaro Cardenas enjoys great popularity, have all played a part in Lopez Mateos' decision that this was the proper time to make a counter-balancing move to please the Left.

IMPLICATIONS FOR U.S. POLICY

In the light of the long-term Mexican force of economic nationalism and of Lopez Mateos' most recent maneuver to the Left, the question arises as to what effect United States policy has or can have on the direction and intensity of Mexican political and economic decisions.

On the economic side, whenever the Mexican Government to some extent loses confidence in itself (as in 1961) because of the diminished investment and economic growth, it tends to reduce its pressure on the private sector and curtails its own ambitious plans for increased State control of the economy. Reasonable statements by government officials begin to appear in print minimizing the effects of Mexicanization and assuring foreign private capital of its welcome acceptance by Mexico.

No sooner, however, than foreign private and public investment is renewed, stand-by credits drawn down to support the peso, or a limited repatriation of flight capital occurs, than the Mexican Government feels itself in a position to indulge its predilection toward "state-ism", expropriation, nationalization, centralized planning, and control. If the Embassy's foregoing analysis of the comparative ease with which the Mexican Government moves Left is a correct one, it follows that external capital assistance, whatever

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permanent benefits it may provide for the economy, tends to reduce, at least temporarily, the economic problems which inhibit and restrain those leftward tendencies which are a basic element of the Mexican political scene.

The most important factor in that political scene in the immediate future is the forthcoming presidential election (1964). With a change in administrations so close and the hangover of the economic recession of 1961 only slightly abated, investors can naturally be expected to take a "wait and see" attitude for the remainder of this year and 1963. During that time, it can be expected that certain names of possible presidential candidates will be put forward in a sort of "litmus paper test" characteristic of Mexican politics. Those put forth earliest will be eliminated while the serious contenders wait in the wings for the proper time to move forward. In this process it can be expected that some or all of those aspiring to the candidacy may make statements or take actions which run counter to our interests, just as Lopez Mateos apparently sees the present time as a correct one for a maneuver to the Left. International Communism will certainly play a part in such activities, and the significance of Communist influence must never be underestimated. The main driving force toward the Left will, however, as in recent years, be the Revolutionary political requirements, as interpreted by Lopez Mateos and his would-be successors, of pursuing a course "independent" of United States' influence, negative toward private enterprise, particularly foreign concerns, and palatable to leftist elements which claim to control "intellectual" and campesino voting power.

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