(TOP, LEFT TO RIGHT) ABBAS/MAGNUM; STEPHANIE MAZE; NADINE MARKOVA

Cover Story

WILL MEXICO MAKE IT?

THE IMF SEES AN ECONOMIC TURNAROUND—BUT HARDER TESTS LOOM

International bankers strutted into Washington this week for their annual International Monetary Fund meeting. For the first time in two years, it was time to stop apologizing and start celebrating. Mexico, the country that nearly flattened the banks, is a turnaround success. But is it?

IMF Managing Director Jacques de Larosière and top Reagan Administration officials say Mexico is doing everything right. And Mexico's bankers have underscored that judgment with new very generous lending terms. The message to such less hopeful debtors as Brazil and Argentina is to take Mexico as their model: Stay the course and you will reap the rewards of a sound economy and better treatment from the banks.

And on the surface Mexico appears to have made remarkable progress since its near-default on its $80 billion foreign debt brought the international financial community to the brink of disaster. Turning the screws on just about everybody, President Miguel de la Madrid has reined in inflation, slashed imports and public spending, and boosted exports. Under a grinding austerity program real wages have dropped 30% in two years.

Mexico did it all without triggering a social explosion or ever threatening to default. And it has piously counseled its fellow debtors to follow the banks' prescriptions. "Mexico wasn't lucky to find the banks. The banks were lucky to find Mexico," says Rogelio Ramírez de la O, head of ECANAL, an economic forecasting group in Mexico City.

But strong doubts remain about whether Mexico is really such a success at home and whether its experiences can be applied to other debtor nations.

The Mexican economy is expected to register a modest recovery—about 2% growth in gross domestic product—this year. But what is sorely missing is any clear idea of what engine will propel the economy to the higher growth that will be needed to meet its bank payments—and the demands of 1 million new job seekers a year (page 76).

It is crucial to the U.S. that Mexico succeed. U.S. banks hold $26 billion of the country's debt, and some 2,900 U.S. companies have direct investments in Mexico. In 1981, the year before the crisis, U.S. business sold Mexico more than $17 billion in goods. Most important, Mexico shares a 1,500-mi. border with the U.S. Reagan Administration officials, haunted by the specter of revolution raging through Central America, worried at the time of the crisis that a Mexican financial collapse could trigger a social and political explosion that would create a "new Iran" next door.

The worst has not happened. Bu