

BUSINESSWEEK: DECEMBER 25, 1995

INTERNATIONAL BUSINESS: MEXICO

'SALINAS' IS FAST BECOMING A DIRTY WORD

The December jitters have hit Mexico again. Last year, it was the currency crisis and economic collapse. This year, the growing scandal surrounding the family of former President Carlos Salinas de Gortari has the country on edge.

Investigators have now identified more than \$106 million stashed in British and Swiss bank accounts by the former President's brother, Raul. The ongoing investigation has Mexico's business class running scared. Those who did business with Raul Salinas are worried about being called in by investigators, while others are concerned that sensational revelations could undermine attempts to stabilize the economy. The scandal also threatens to damage Mexico's crucial relations with the U.S., which led the \$50 billion bailout for Mexico earlier this year.

Trust between the two countries has been damaged by a recent news report saying that U.S. Drug Enforcement Administration and other law-enforcement agencies have uncovered some \$500 million in various bank accounts linked to the Salinas family. The State Dept. and the Justice Dept. immediately denied they were conducting any criminal investigation of Carlos Salinas. Still, sources in Washington say officials of the Bush and Clinton Administrations have long suspected that some members of the Salinas administration might have had links to Mexican drug cartels during Carlos Salinas' term in office from 1988 to 1994.

SHORTCOMINGS. Earlier this year, the sources say, the DEA wanted to withhold official certification that Mexico was cooperating with bilateral drug-combating efforts but was overruled by the State Dept. James R. Jones, the U.S. ambassador to Mexico, denied that he or State tried to discourage the DEA. "That's just not true," he said in an interview.

The investigation also threatens to turn into an embarrassment for Citibank, the leading U.S. bank in Mexico and the developing world. According to press reports, British police have frozen a \$22.7 million bank account belonging to Raul Salinas at Citibank in London, and U.S. authorities have discovered another of Raul's accounts at Citi in New York. That apparently has Citibank worried. Several sources say Citibank Mexico recently braced for a raid by zealous Mexican police. The fears seemed to stem from Mexican press reports that Raul Salinas may have used Citi branches to funnel money out of the country. Says Citibank: "We always thoroughly examine all the questions about alleged irregularities in Citibank operations. We have not found any reason to believe that we have acted illegally or unethically, as the Mexican press has argued."

The scandal puts President Ernesto Zedillo Ponce de Leon in a difficult spot. First of all, it threatens to detract from his efforts to revive the economy in 1996. Zedillo has also made cleaning up Mexico's legal and judicial system a priority. However, when Swiss authorities revealed on Nov. 23 they had arrested Raul Salinas' wife, Paulina Castanon, and brother-in-law, Antonio Castanon,

when they tried to withdraw money from accounts in Geneva containing \$83.9 million, Mexican law-enforcement officials were caught flat-footed. The affair has highlighted the shortcomings of Mexican prosecutors, who are clearly out of their league on such a complex case. To Zedillo's embarrassment, U.S. and Swiss investigators are feeding Mexico the information that is moving the case along. Mexicans increasingly believe "that the entire investigation of the Salinas family...is being carried out by the U.S. and not by the Zedillo government," says Mexican political scientist Jorge Castaneda, a visiting professor at Princeton University. "That's a damaging thing. It will have an enormous political impact."

The Mexicans say they haven't moved against Carlos Salinas because they lack evidence. "The argument that we haven't taken action because we are not willing to is absolutely false," says a senior government official.

Salinas has become a kind of flying Dutchman haunting the Zedillo administration. He had been living in self-imposed exile in New York and Montreal since shortly after Zedillo took office. But recently, he was spotted at a Cuban resort--using an alias. Until the issue of where Raul Salinas' money came from and whether Carlos was involved is put to rest, Mexico is going to have a hard time getting back to normal.

By Geri Smith in Mexico City, with Amy Borrus in Washington and bureau reports
