Free trade agreement will pare away Mexican territory

by Carlos Cota Meza

The following is an edited translation of a presentation on the North American Free Trade Agreement (NAFTA), given at a Sept. 25 seminar in Mexico City sponsored by EIR/Resúmen Ejecutivo. *Mr. Cota is a co-author of* EIR*'s Special Report entitled "Auschwitz Below the Border: Free Trade and George 'Hitler' Bush's Program for Mexican Genocide."*

The majority of the productive sectors of the national economy have carried out analyses and forecasts of what will occur to each of them with the signing of a North American Free Trade Agreement among Mexico, the United States, and Canada. A review of those analyses is useful to establish certain premises for discussion regarding the true significance of NAFTA. While all the comments quoted below convey a piece of the truth, they are nevertheless fatally wrong concerning the true significance of NAFTA, as we will see:

Metal-working. The Guadalajara Chamber of Metal-working Industries, in a document entitled "The Challenge to Businessmen in the Face of the Free Trade Agreement," indicates that "Mexican industrial plant, minuscule in comparison with that of the United States and Canada, and in addition seriously deteriorated over a long period of time by a spiral of financial speculation, will not be long in succumbing and disappearing." For the Chamber, "the only competitive characteristic upon which Mexican companies can rely is the cost of labor, and in everything else we are at a clear disadvantage." In a separate study, the Pan American Institute of Business Executives reaches the identical conclusion.

The Guadalajara Chamber demands that officials involved in the NAFTA negotiations maintain the principle that "we are asymmetric economies."

Transport. The Center of Economic Studies of the Colegio de México prepared an analysis entitled "The Current Situation and Perspectives for Transport in Mexico in the Face of the Trade Opening." Its conclusion is that "the national transport sector will be incapable of meeting international competition. The opening could lead to the disappearance of an important number of companies." The document proposes the "gradual and selective opening up of the sector."

Agriculture. The National Union of Poultry Breeders issued a statement through Maria Antonieta Yañez, manager of the union's economic studies' department, which indicated that "national egg producers and the poultry sector in general require tariff protection of at least 15 years' duration through the Free Trade Agreement negotiations."

The economist further pointed out that "while poultry breeders in the United States are self-sufficient in raw materials, in Mexico they meet 40% of their requirements for sorghum and soy through national output, whose nutrition content is inferior, but at a higher price to the international; the other 60% is imported, but at a higher price than that paid by U.S. poultry growers."

Another of the arguments in favor of the sector's appeal for protection is that direct trade in Mexico is practically nonexistent, while the poultry sector in the United States directly trades up to 79% of its production. "In the United States, they don't resort to wholesalers."

Textiles. Economist Jorge Leypen Garay, director of the Business Group of the Mexican Labor Federation, declared that "the most brutal effect we have suffered through the trade opening was dealt by GATT. That is where we really suffered the impact. . . . The United States' textile market is $104 billion, while ours is $4 billion. Our entire national production, even supposing that we deprive Mexico and send it all to the United States, would not even cover 4% of its market." Nevertheless, Leypen Garay maintains that NAFTA will be positive, "if they let us export to them."

Plastics. Sector leader and economist Julio A. Millán declared that "the national plastics industry will need between 5 and 10 years to meet the indispensable technological changes for raising production to 2.5 million tons a year for the next five years. Today, production is 1.2 million tons a year."

Independent studies by other businessmen in the sector indicate that the figure of 1.2 million tons represents less than 1% of the United States' annual production, and that that country could inundate Mexico with plastic products any time it chooses.

Millán said that they have brought their proposal to the NAFTA negotiators "so that they would give us the time we need." Nonetheless, Millán said that "inefficient companies will have to disappear."

Finance. Economist Sergio Mota Marín, former director of economic studies of Banamex as well as of the Small and Medium Industries' contingency fund, said that "the banks,

Mexico and its 'maquiladoras'

as they currently stand, appear destined to perish in the face of the certain incorporation of the financial system into NAFTA, except those which are associated with credit institutions well placed on the international market."

Economist Mota Marín's recommendation is that national banks in the process of reprivatization associate themselves with Canadian and American consortia, under the presumption that these will be the competition to make Mexican institutions "more efficient."

Antonio Ortiz Mena went before the Mexican Senate in his capacity as Banamex director, just days before it was reprivatized, to ask for a period of 10 years of protection for the financial services sector.

Foreign trade. Ernesto Warnholtz, president of Mexico's National Association of Importers and Exporters, indicated that "in foreign trade, a phenomenon of concentration in a few companies has been maintained, since the bulk of exports is carried out either by the multinationals or by the large industrial groups, but there is no important participation by small and medium-sized industry."

The group's conclusion is identical to that reached in a study by the National Foreign Trade Bank, which states that "the greater part of sales abroad of non-oil products is carried out by a great consortium which represents barely 2% of existing companies."

Effectively, the so-called growth of exports is centered in Cementos Mexicanos, Vitro, Cervecería Modelo, Mabe, and the automotive industry. Around 36 companies considered the cream of the exporters (Altex companies) are the ones that receive all kinds of government assistance.

Ernesto Warnholtz says that one of the priorities that must be resolved before NAFTA is signed is the disproportionate growth of imports that could be met by national production. He cites agricultural products as an example.

North versus South

Despite the useful information contained in these reports, they miss the essential fact: NAFTA has never been a beneficial proposal for the national economy. It is designed to territorially reduce our country, creating production enclaves like concentration camps of cheap labor (*maquiladoras*), while splitting the country into tiny "republiquettes," especially in the oil and tourist regions. Given that NAFTA represents one more turn of the screw in forcing payment of the foreign debt, the country will end up paying its foreign debt with its national territory.

Bancomer's economic research department conducted a study on the economic characteristics of Mexico's 32 states, including the Federal District. The study's conclusion is that only Baja California, Sonora, Chihuahua, Coahuila, Nuevo Léon, and Tamaulipas are "in condition to join the first world." Another seven states, seen as "potential beneficiaries," are either in the oil zones, or already have a developed "tourist industry." The remaining 19 states have nothing to offer in the face of international competition, and it is in these that the majority of Mexico's 40 million who live in poverty are concentrated.

The first six states of the republic are all in the so-called "*maquiladora* strip." It is in this northern zone that the greatest weight of the badly named manufacturing industry is located: 90.6% of the *maquiladora* export industry and 33% of the so-called Altex companies.

Public federal investment in the northern zone has been diversified: four-lane highways, border bridges, modernization of rail lines and cargo transport, modernization of such ports as Topolobampo, Sinaloa. It is in this same northern zone that the Federal Electricity Commission has its only investment plan under consideration, the hydroelectric project at Aguamilpa, Nayarit.

Total public investment for the northern zone in 1990 was 13.3% of the federal investment budget. In the southern zone, it was 13.6%, but 74% of that went into oil.

The *maquiladoras,* according to official figures, represent the highest job-creating capacity in the northern zone, such that they absorb labor displaced by the region's crisis in agriculture and animal husbandry. The *maquiladoras,* however, do not form a part of the Mexican economy, outside of the fact that they are located on Mexican territory, near the border with the United States. They are a foreign enclave, a free trade zone that functions like the Free Trade Zone of Colón, in Panama.

The trade balance

We have been told many times that with NAFTA, Mexico will increase its exports. The same was told us when the country entered GATT, but the fact is that the opposite occurred.

Information from the Bank of Mexico on the trade balance for the first six months of the year shows that only two sectors (extractive and cattle-raising) of the 20 that make up our foreign trade, showed a surplus.

We showed a deficit in textiles, food, skins and leather, wood, paper, petroleum derivatives, petrochemicals, chemicals, plastics, steel, mining and metallurgy, all transport vehicles, machinery, and even jewelry and watch-making. On the other hand, imports in automobile assembly registered a 264% growth in the first four months of the year.

The net trade deficit for the first semester was $4.814 billion but the deficit of the manufacturing sector was $8.650 billion. The manufacturing sector, nearly entirely in the hands of the private sector, is importing at the rate of $2.529 billion a month, while it is exporting at a rate of $1.23 billion a month—a difference of $1.289 billion a month. Of the two sectors showing a trade surplus, exports of crude oil totaled $3.859 billion, and the cattle sector exported $22 million.

The question of imports

Private sector importers state that their trade balance deficit is due to "modernization of equipment," since import of machinery, equipment and raw materials represents more than $4.5 billion. They pretend that at a given moment this tendency will end, and lead to new exports. The problem is that they have been telling this same story for four years now.

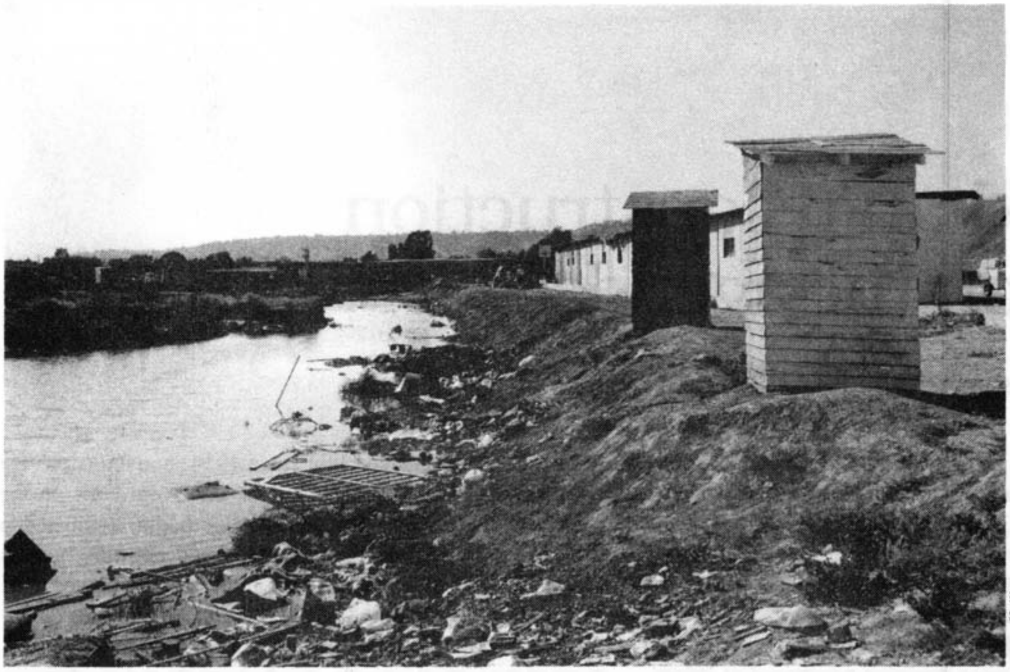
Where is the $4.5 billion worth of machinery, equipment and raw materials being invested?

According to the Planning and Budget Department, *imports under the temporary regimen* increased by 64% for the first five months of the year, over the same period last year. The Program of Temporary Imports to Produce Exports (Pitex)—which does not include the *maquiladoras*—was launched in 1985 with the goal of "financing and facilitating imports to achieve exports," according to then-Trade Secretary Hector Hernández. The beneficiaries of this government fund would be the Altex companies.

Pitex has yielded the result that the value of imported inputs in comparison to exported Mexican products has increased substantially. In 1989, the value of temporary compared to total exports was 22.3%, while the ratio for the first five months of 1991 was already 32.0%.

This shows that the entire non-oil sector which is in private hands (2% of the companies) has also already been turned into a *maquiladora* sector for the U.S. market. The case is illustrated by the automotive industry (an Altex company under the Pitex regimen), which, according to the Bank of Mexico, contributes 60% of non-oil exports, but which for the month of March registered its first trade deficit of $170 million.

Thus, it is already physically demonstrated that the government's claim that Mexico will become an export power under GATT and NAFTA is false. The established dynamic is thus that the greater the non-oil exports, the greater the imports. Companies which carry out this activity represent a mere 2% of national companies, and 33% of these are concentrated in the northern zone. At the same time, nearly



George Hollis

Maquiladora *slums, showing outdoor privies on the edge of an open sewer in Tijuana, Mexico. "In Tijuana, 40% of the population has no potable water"—a breeding ground for cholera.*

the entirety of the *maquiladoras* are concentrated in the north as well, to which Mexico contributes its territory and its cheap labor power.

How do the maquiladoras operate?

Let us return to the only sector yielding a trade surplus: the *maquiladoras* (although it is worth noting that their surpluses grow smaller to the extent the net trade deficit grows).

The number of jobs generated by the *maquiladoras* in 1990 was nearly 500,000. From 1989 to 1990, the *maquiladoras* grew 12%. At this growth rate, by 1992 there will be 608,000 *maquiladora* jobs, by 1994 there will be 860,000, by 1997 there will be 1.1 million, and by the year 2,000 there will be 1.5 million jobs.

The secret of the *maquiladora* sector's "high yield" is *the rate at which it replaces its employees,* which reaches 120% a year! This means that in 1990, for the nearly 500,000 jobs the *maquiladoras* offered, some 1.1 million Mexicans had to pass through the *maquiladora* assembly lines, where their labor power was extracted like any other "product," and they were then substituted with "fresh" labor.

Two-thirds of the *maquiladora* labor force consists of women whose ages range between 16 and 19 years. A study done on the working conditions of the *maquiladoras* established that the *useful life* of the *maquiladora* worker is 1,825 days (5 years).

This means that those who began work in 1985 and remained as *maquiladora* employees (assuming they were not fired after three months or that they didn't use the job as a transition to cross the border into the United States), by 1990 would already be considered "waste material," annihilated by any of the various typical infirmities that afflict the *maquiladoras:* organ atrophy or mutilation.

This should demonstrate that the government's claim that the *maquiladoras* are "an important source of employment" is another total lie.

Employment in the manufacturing sector (including the *maquiladoras*) fell from 3.7 million in 1980 to 2.6 million in 1990, an absolute reduction of more than 1 million jobs, or 28.5% of the 1980 total. In net terms, more jobs were lost or not generated in the industrial sector as a whole, than were generated by the *maquiladoras*.

So again we see that the only "competitive" edge Mexico has is its army of unemployed who will be recirculated through the *maquiladoras* at rates surpassing 100%. This army, at the same time, will guarantee that wages will never significantly rise.

Simultaneously, this situation in the *maquiladora* region reveals the physical limits of the federal government's economic program as a whole. For example, in May of this year, *EIR* received a medical-military evaluation which established that cholera would arrive in Mexico within the next two years. Well, cholera is already in Mexico. So what will happen when it reaches the *maquiladoras?*

In Tijuana, Baja California, 40% of the population has no potable water; in Nogales, Sonora, 40% of the population has neither potable water nor drainage. Ciudad Juárez, Chihuahua is a horror story, and the other *maquiladora* centers distributed along the southern banks of the Rio Bravo, use this river as an open-air sewer.