Is Mexico to be assimilated into the economy of the United States?

by Carlos Cota Meza

The goverment of Mexican President Carlos Salinas de Gortari has adopted a series of measures whose purpose is to insert the Mexican economy into what remains of the economy of the United States, as a "free-market" sweat shop. The measures range from privatization of the banks and state enterprises, to "globalization" of such services as insurance, adjustment of tax laws to facilitate capital repatriation, projects to dismember the state oil company PEMEX and deliver exploration and exploitation rights to "concessionaires," and proposals for international treaties that would prohibit expropriations by formerly sovereign nations.

The most recent measure taken is the extension of the Stability and Economic Growth Pact (PECE) through January 1991. The PECE is the heir to the Economic Solidarity Pact imposed by the previous goverment of President Miguel de la Madrid in December 1987. The 1987 pact froze the leading prices of the economy: the exchange rate, consumer prices, public service rates, and wages. Only interest rates were left free. Such measures submerged the productive aspects of the Mexican economy in an indefinite period of recession, with inflation in financial activities.

'Free market' means tyranny

What does such a clearly government-imposed pact have to do with the free-market orthodoxy defended by Bush and Salinas?

For Salinas's government, the most important point of the new pact is the reduction of the daily devaluation rate as of May 28 from 1 peso to 0.8 pesos. The reason for this measure is that what little remains of Mexico's consumption capacity depends on the imports it buys, primarily from the United States. The problem now is how to get the dollars to finance those imports.

According to a report by the Planning and Budget Department on the January trade balance, Mexico registered a deficit of $81 million against an expected negative balance of less than $20 million. Exports grew 13% against a 24% growth in imports, as compared to January 1989.

The greatest dynamism in purchases abroad shows up in consumer goods—primarily food—while those of highest value were intermediate goods imported to prop up the export capacity of the *maquiladoras,* the assembly plants located on Mexico's border with the United States. According to the forecasts by the Mexican Trade Department and by private analysts, non-petroleum exports will not increase because all companies dedicated to these activities are already operating at full capacity.

Agriculture has collapsed

Mexico's January trade deficit shattered all estimates. One explanation is offered by the National Institute of Statistics, Geography, and Information, in its report on national agricultural activity. In 1989, activities in the countryside fell by 3.1%, and production of basic grains plummeted by 1.7 million tons. Imports for the decade between 1979 and 1989 totaled 63 million tons, comprised primarily of corn, beans, rice, wheat (in which Mexico was once self-sufficient), vegetable oils, powdered milk (of which Mexico is the world's leading importer), beef, and poultry. The crisis in Mexican agriculture is due to the depression or disappearance of price guarantees, and the high cost of credit and such inputs as fertilizer, electrical energy, and fuel.

The spring-summer agricultural cycle for basic grains, which begins its harvest in April, suffered serious delays because of lack of financing. In the month of May, the National Bank of Rural Credit had only financed 14.3% of a planned 3.3 million hectares of cropland. Private financing for Mexican agriculture practically doesn't exist at all, because of producers' diminished economic capacities, the high cost of commercial credit, and its temporary disappearance because the banks are being re-privatized and have suspended their loan operations.

According to initial investigations, only 10% of 1.7 million industrial, commercial, and service companies are able to absorb higher prices and public service costs.

What is therefore expected for 1990, is a gigantic increase in the trade deficit. This is the weakest link in the Salinas economic strategy.

Where will the dollars come from?

It is officially recognized that the Mexican government's economic program is banking on the repatriation of capital and on direct foreign investment. The flow of fresh capital following the ballyhooed restructuring of Mexico's foreign debt has, however, proved discouraging thus far. Money from the private creditor banks has not reached $60 million, and the Mexican government expects to receive total financing of $580 million, which is effectively canceled out through interest payments due which equal or surpass that amount.

Thus, the Mexican government is understandably desperate for dollars, to the point that its Treasury Department has just readjusted tax laws passed as recently as December, in hopes of encouraging the repatriation of capital. According to the new ruling, if capital fled the country prior to Dec. 31, 1985, its owners owe a 1% tax. If the capital left after that date, no taxes are owed. But if those who took their dollars out of Mexico cannot show proof of the date they sent their money across the border, their word will prove sufficient testimony upon return of the cash. In other words, Mexico's tax law has now been placed at the discretion of the "flight capital" offender.

According to the Bank for International Settlements, private Mexican deposits abroad as of June 1989 were $17.26 billion, while total Mexican deposits abroad were $21.48 billion. Thus, the Mexican government owns $4.22 billion of foregn deposits. Analysts now reveal that those official deposits abroad have fallen significantly, and suggest that these have returned to Mexico under the rubric of "repatriated capital." Today, Mexican Treasury authorities are claiming more than 1 billion repatriated dollars for the first quarter of 1990, a figure belied by the very desperation of the measures they are taking.

One of the reasons why this money is not returning to Mexico can be found in the United States itself. The crisis of the U.S. banks, which serve as the principal shelter for Mexican flight capital, has forced these banks to block any withdrawals and to seek, with equal desperation, new depositors.

According to U.S. financial sources, Mexican deposits in U.S. banks currently approach $20 billion. While the Mexican government is offering every kind of guarantee to bring those dollars back into the country, the U.S. banks are offering even better terms if they stay. In the final instance, the U.S. Federal Deposit Insurance Corp. has become the guarantor for keeping Mexican reserves inside the United States.

The magnitude of the banking crisis north of the border should be sufficient reason for Mexican capital to flee the U.S.—but not necessarily back to Mexico. In fact, returning to Mexico now would be like jumping from the frying pan into the fire. The whole "repatriation" issue has been reduced to a virtual cross-border banking war, which is in turn shrinking the availability of exchange to finance Mexico's balance of trade deficit.

U.S. wants still more 'guarantees'

It is therefore clear that Salinas de Gortari's draconian policies are nothing but George Bush's program to postpone the collapse the bankrupt U.S. economy. The U.S. Treasury Department has become the de facto guarantor of Mexican foreign debt payments to the private creditor banks.

The latest measure taken to attract investments to Mexico is the virtual elimination of the minimum wage, and the establishment, under the PECE, of a linkage between wage hikes and productivity increases. And still the investments are not coming, so the latest demand is that Mexico sign treaties in which it guarantees that direct foreign investment would not be subject to expropriation or nationalization, and that foreign investors would have the right to free convertibility of their profits. After this, the only thing Salinas will have left to offer are investments in Mexico's petroleum fields, the last economic sector in the country that offers "increases in exports."

Despite all evidence to the contrary, Mexico's rulers continue to shout to the four winds, like the proverbial captain of the *Titanic,* "Not even God can sink this ship." Nonetheless, two key factors weigh heavily on the minds of those who control national economic policy. The first is that they know their policies are the product of an illegitimate government, which lost the 1988 presidential elections but was seated through fraud. Second, they do not know what will happen in the 1991 federal elections, nor do they know how the teachings of Pope John Paul II will manifest themselves politically.

During last month's papal tour of Mexico, John Paul II censured both Marxism and the "liberal capitalism" so ably represented by Salinas and company, defended the rights of the worker, and called for Latin American-wide integration, based on common history, language, culture, and religion.

Government lives on borrowed time

High-level and confidential sources have already confirmed that the presidential house at Los Piños and the economic cabinet responded to the Pope's homilies with hysteria, and serious regret over having extended an invitation to His Holiness.

Given the economic crisis in both Mexico and the United States, the current clamor for a North American Common Market could be described as fleeting—but it nonetheless remains dangerous. The Mexican government is like a small sardine caught in the propellers of a sinking "Made in USA" *Titanic.*

In short order, the 1991 federal elections will become the hottest national issue in Mexico, and will undoubtedly be seen as a referendum on whether Mexico should join the *Titanic* on its plunge to the bottom. And if the young technocrats are still ruling after that date, the main crisis they will face is whether to let John Paul II back into Mexico in 1992, which is when the Pope expressed an interest in returning.

It is these two uncontrolled variables which will determine the future of the Salinas government.