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Mexico Is Exporting Its Heart Out

by Dennis Small

Trade, like blood circulation, can be a good thing. But when Dr. Dracula (Ph.D. in Economics from Harvard) proposes to increase the flow of *your* blood past his doorstep, and you find yourself growing alarmingly anemic, it's time to start asking questions.

Far-fetched? Then take a look across the U.S. southern border to Mexico, where Señor Dr. Dracula reigns supreme, courtesy of Wall Street and the City of London. Mexico is being bled white, and one of the principal mechanisms of this looting process is a vast increase in Mexican trade flows over the last two decades, especially of exports from the *maquiladoras,* or in-bond assembly plants, to the U.S. consumer market.

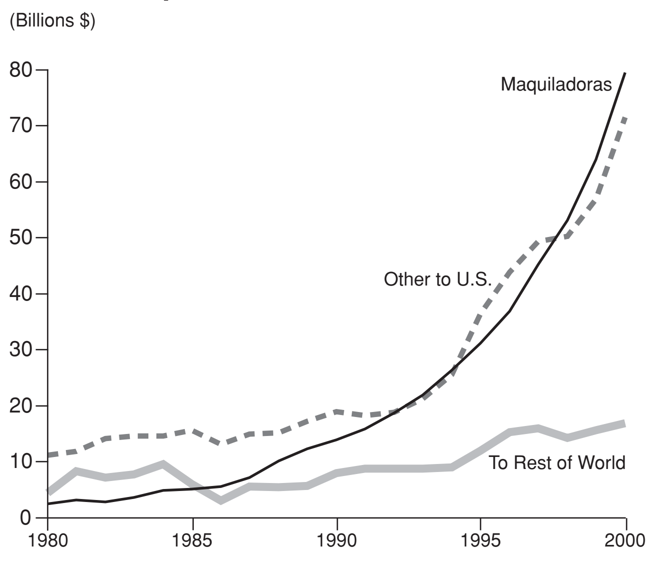
No country in the world is more thoroughly dependent on trade with the United States than Mexico. According to official Mexican statistics, a whopping 90% of Mexico's exports in 2000 went to the United States—a market that is about to disappear. (Even Puerto Rico exports only about 88% of its total exports to the U.S. mainland.) Yet, no country in the world is more cited than Mexico as the "success story" which supposedly proves that free trade and globalization work, and that "export-led growth," with full integration into the world financial and trade markets, is the way all countries should go. Special plaudits are reserved for the U.S.-Mexico-Canada North American Free Trade Agreement (NAFTA), put into motion in the early 1990s by President Sir George Bush and Mexican President Carlos Salinas de Gortari, and, in particular, for the extraordinary rates of growth of the *maquiladoras* located principally along the Mexican border with the United States.

Hold-out nations—ranging from Brazil in South America, to Malaysia in Southeast Asia, to recalcitrant Russia—are sternly advised by Wall Street public-relations men to give up their sinful, protectionist ways, forget their internal markets, orient only to the global marketplace, and join Mexico in reaping the benefits of unbridled free trade.

Mexico's foreign trade has, in fact, grown phenomenally over the last 20 years (see **Figure 1**), led by total exports to the United States, and in particular by exports from the *maquiladoras* (which go almost exclusively to the United States). Trade is now more than one-third of Mexico's Gross National Product.

So, if things worked as the propagandists of globalization insist they do, such trade growth would have translated into progress for the Mexican economy and its population. But what the Mexico case actually demonstrates, is that there is an *inverse* relationship between this globalized trade boom and the real physical economy. In the case of Mexico, while *maquiladora* foreign trade barrelled ahead by more than 19% per year on average over the last two decades, and total trade grew by more than 12% per annum, the country's physical economy (as measured by *EIR*'s market-basket studies[1]) *collapsed* by more than 2% yearly over the same time period (see **Figure 2**). Even GNP, which by no means measures the real economy, but only the monetary sum of what is bought and sold within a country (including all sorts of unproductive activities), only inched up by about 2.7% per year during that period.

FIGURE 1
Mexico: Export Trends
(Billions $)



Sources: Banco de México, INEGI.

This unmistakeable *inverse* pattern exists because foreign trade, in today's world, has become a giant looting mechanism, rather than a vehicle whereby sovereign nations exchange goods and technology, enhancing their own capabilities within a global division of labor, to the mutual benefit of each and all.

For example, in a healthy developing economy, about half its imports would be capital goods and other technology-bearing products, to speed its industrialization process. In Mexico, however, only 14% of total imports are capital goods, and about one-third of these go for the *maquiladora* sector, which in no way benefits Mexico's national development.

1. "The Debt Bomb Is Set To Explode in Mexico—Again," *EIR*, Feb. 28, 1997.

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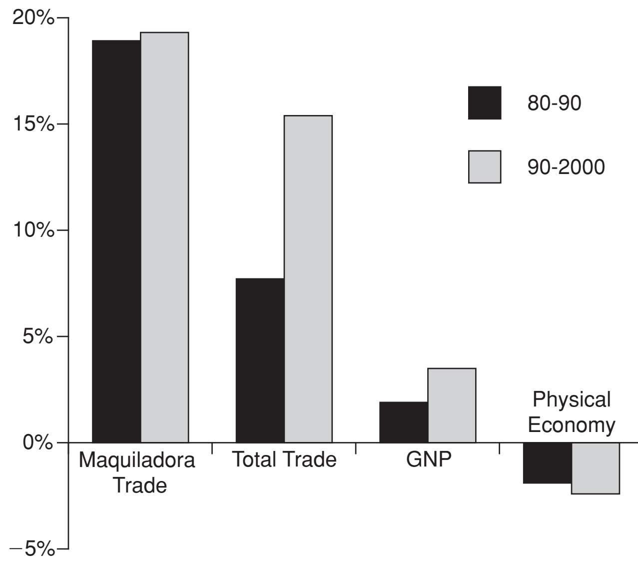
FIGURE 2
Mexico: Comparative Growth Rates
(Annual Averages)



Sources: Banco de México, INEGI; *EIR*.

Thus, less than 10% of Mexican imports are usable capital goods. On the other hand, a shocking 35% of its imports are semi-finished products for the *maquiladora* sector, which are then simply re-exported as assembled consumer goods.

Under globalization, trade looting occurs through a variety of mechanisms. Rather than being a vehicle for transmitting technology *into* developing economies, trade works to transfer wealth *out,* in the form of cheap labor and underpriced final products. This shows up as progressively worsening terms of trade for Third World nations (i.e., the average price of their exports drops, while import prices rise), which is brought about by outright cheating and market manipulation by the global financial oligarchy. Furthermore, export earnings are then used principally to repay a large and growing foreign debt, rather than for internal development.

In each of these ways, Mexico today is exporting its heart out.

Export Dependency

Given its geographic proximity, the lion's share (between two-thirds and three-quarters) of Mexican trade has historically been with the United States. But the extreme, 90% dependence currently, *on a market that is about to disappear,* is a result of the Bush-Salinas NAFTA binge of the 1990s.

As **Figure 3** shows, in 1980, some 76% of Mexico's exports went to the United States. In 1990, the share had risen slightly, to 80%. But then, over the NAFTA decade of the 1990s, it leapt to the current level of 90%. Mexico's dependence on the United States for its imports is only slightly less extreme, currently hovering at around 75% of total imports.[2]

But even more significant than this indication of dependency on the U.S. export market, is the fact that the cancerous foreign enclave, the *maquiladora* sector, has grown to dramatically dominate *all* exports. If we look at the origin of Mexico's exports to the United States, as shown in Figure 3, it is noteworthy that, in 1980, non-*maquiladora* exports to the United States were more than four times as large as *maquiladora* exports (62% versus 14% of the total). By 1990, non-*maquiladora* exports to the United States were only about one-third larger than *maquiladora* exports. But by 2000, the *maquiladoras* had taken the lead, 47% to 43%.

This dramatic shift stands out more clearly if we look at the *maquiladora* share of total exports against all others combined, as we do in **Figure 4.** *Maquiladora* exports rose from only 14% of total Mexican exports in 1980, to 34% in 1990, to a scandalous 47% of the total in 2000. In absolute terms, this was more than a 30-fold increase, from $25 billion in 1980, to $79.5 billion in 2000. Non-*maquiladora* exports to all parts of the world grew less than sixfold in the same two decades (from $15.5 billion to $88.4 billion).

When the import side of the trade picture is taken into account, the dominance of the *maquiladora* sector is only slightly less dramatic: It was 41% of total Mexican trade in 2000 (see **Figure 5**).

But the economic significance of the *maquiladora* sector is not simply that it has become the largest component of Mexico's foreign trade. It is also the sole source of a trade surplus. Over the last two decades, the *maquiladora* trade has consistently run a large, and growing, trade surplus—very convenient for paying the foreign debt (see **Figure 6**). The annual surplus really shot up beginning in 1995, in response to the explosion of the Mexican debt bubble in 1994-95, more

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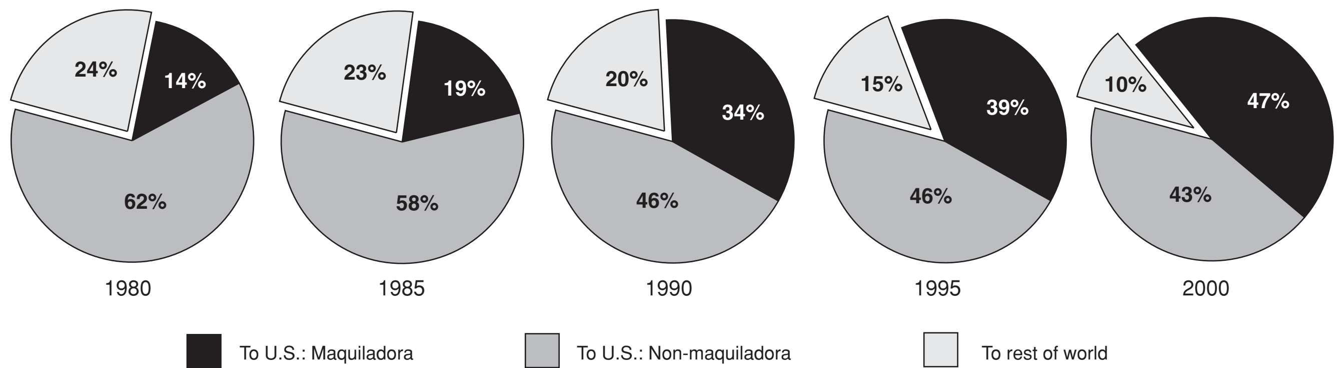
2. Throughout this study, we have used official Mexican trade statistics only, as provided on the websites of the Banco de Mexico and INEGI, the official statistical agency. There is a notorious discrepancy between U.S. data and Mexican data for U.S.-Mexican trade, with the U.S. numbers being significantly lower—by about 10% of the total for Mexican exports, and 16% for Mexican imports. For example, if U.S. data are used, "only" 82% of Mexican exports went to the United States in 2000, as compared to the 90% figure provided by Mexican numbers.

The U.S. Department of Commerce published a study of these discrepancies, in which they studied the years 1996 and 1997, based on research conducted by a joint U.S.-Mexican task force. The study found that about half of the discrepancy for Mexican imports is explained by what they call "Partner Country Attribution" errors—i.e., the fact that Mexico reports only the leading country of origin for imports of goods whose components in fact have more than one country of origin. The other half is unexplained "residual differences." However, in the case of Mexican exports, more than 90% of the discrepancy is unexplained "residual differences."

For these reasons and for internal consistency of the data, we have chosen to use Mexico's data throughout—with the caveat that we may be overstating the U.S. share of Mexico's trade, especially imports, by a few percentage points, although the trends and growth rates are almost identical with both data series.

FIGURE 3

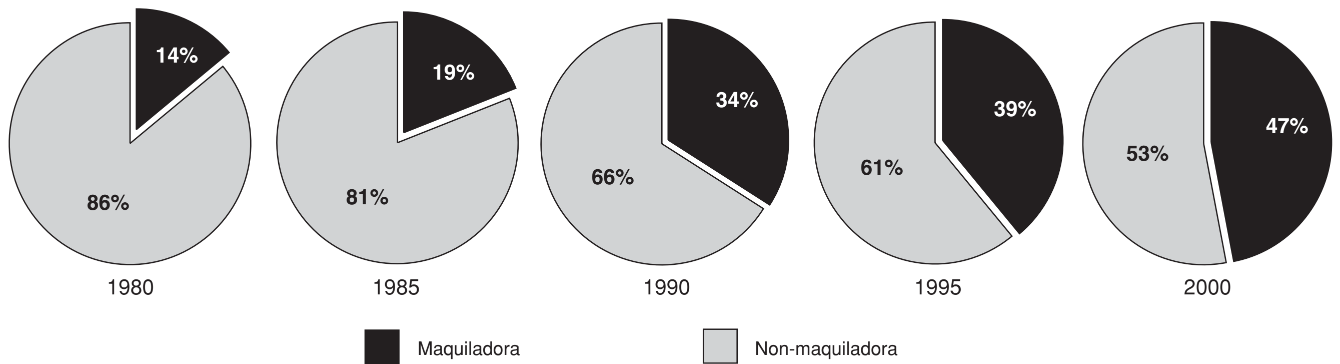
Mexico's Export Dependency on the U.S.



Sources: Banco de México, INEGI.

FIGURE 4

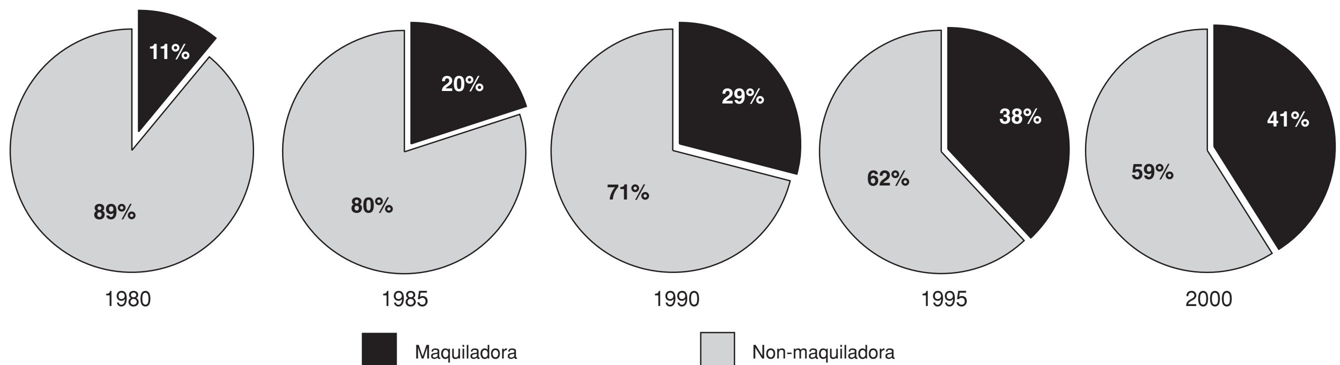
Mexico: Maquiladora Share of Total Exports



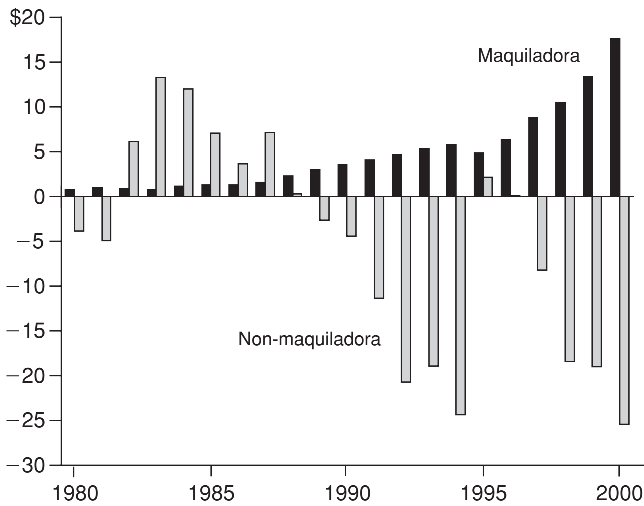
Sources: Banco de México, INEGI.

FIGURE 5

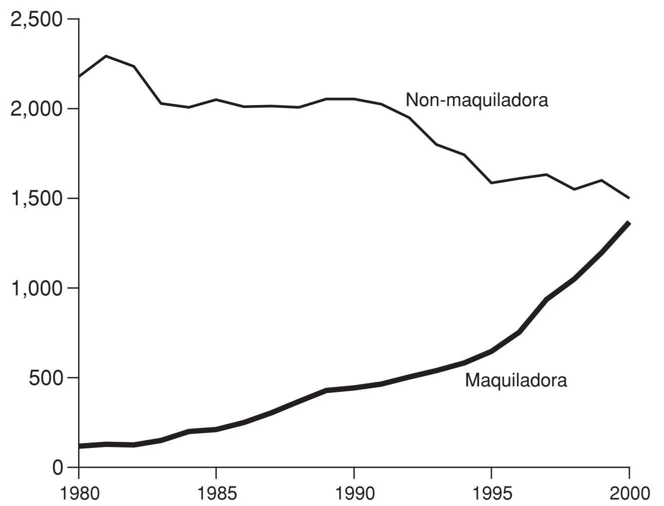
Mexico: Maquiladora Share of Total Trade



Sources: Banco de México, INEGI.



Sources: Banco de México, INEGI.



Sources: Banco de México, INEGI; *EIR*.

than tripling, from $4.9 billion in 1995, to $17.7 billion in 2000. The cumulative *maquiladora* surplus from 1990-2000, the NAFTA decade, was more than $85 billion.

Meanwhile, non-*maquiladora* trade has consistently run a large, and growing, *deficit,* cumulatively totalling almost $150 billion over the same period. The only exceptions were 1995 and 1996, where, again in response to the debt crisis, Mexico was forced by the International Monetary Fund and its creditors to slam the brakes on non-*maquiladora* imports, resulting in a momentary trade surplus in that sector as well.

Is Cancer Now Classified as Economic Growth?

It must here be underscored that the *maquiladoras* are, properly speaking, not part of the Mexican economy: They are a foreign enclave on Mexican territory, which grind up Mexican slave labor, and spread Auschwitz-like conditions, especially in the north of Mexico. They are a cancer (see box). And the inescapable reality is that Mexico, a nation of 100 million people, has come to be dominated by that cancer. Nearly half of all its trade is from the *maquiladoras*. And nearly half of all its manufacturing employment is in the *maquiladora* sector—at slave-labor wages.

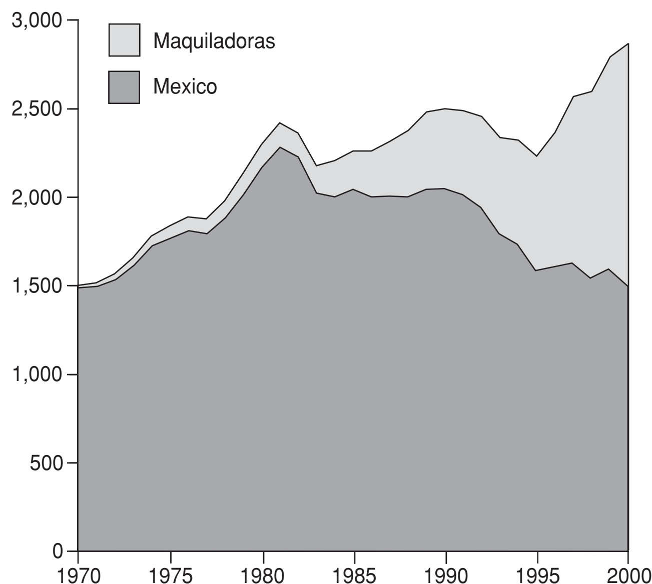
Figure 7 shows that *maquiladora* employment has skyrocketted by an order of magnitude, from a mere 120,000 twenty years ago, to about 1.4 million today—an average annual rate of increase of 13%. At the same time, actual employment in the manufacturing sector of Mexico proper,[3] has dropped by about one-third, from 2.2 million to about 1.5 million—an average annual *decline* of 2%. In other words, about the same number of workers are now employed in these *maquiladora* slave-labor shops, as are actually employed in the entire manufacturing sector of Mexico proper. And this, again, in a nation of 100 million.

Figure 8 presents the same categories of employment over a slightly longer time period, and shows the cancer more starkly. The darker shaded portion corresponds to *EIR*'s estimate of real employment in the non-*maquiladora* manufacturing sector, which we have intentionally labelled simply as "Mexico"; everything else is, in fact, not a functional part of Mexico's productive physical economy. The only thing that has grown, is the cancer.

Wages in the *maquiladoras* have dropped from $1.40 per hour in 1980, to about 78¢ per hour today (see **Figure 9**). In other words, as *maquiladora* employment has increased tenfold, average wages have fallen by about half. But the hourly wage levels only tell part of the story. Social and infrastructure conditions in the *maquiladora* belt are pure Hell. The majority of the workers are young women and girls. And the average period of employment is about nine months per

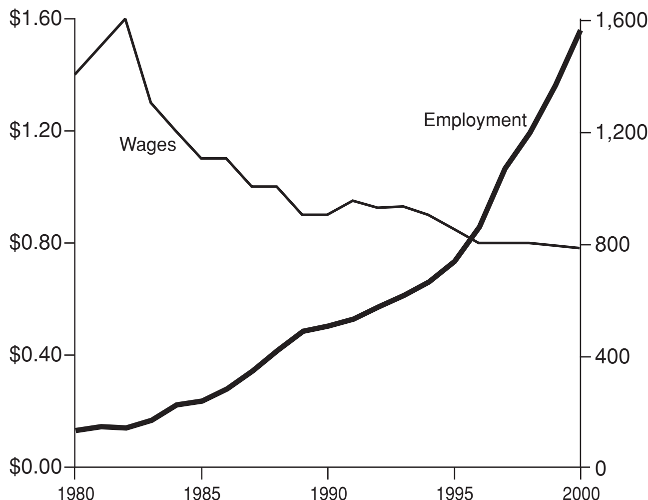
3. These are not official Mexican statistics, which vastly overstate real employment in manufacturing. In 1997, *EIR* published an extensive study with our own calculations (see *EIR*, Feb. 28, 1997 for details on methodology), which have been updated for this report.

FIGURE 8
Mexico: Real Employment in Manufacturing
(Thousands)



Sources: Banco de México, INEGI; *EIR*.

FIGURE 9
Mexico: Maquiladora Wages and Employment
($/hour) (thousands)



Sources: Banco de México, INEGI, CTM; *Twin Plant News*; AFL-CIO.

job. In other words, people are being ground up and spit out onto the human trash heap, and into the massive pool of Mexico's unemployed which, according to *EIR*'s calculations, are, in reality, about 50% of the total labor force.

Although U.S. wages in the manufacturing sector are no great shakes, it is nonetheless revealing to note that, back in 1980, the *maquiladora* wage was about one-fifth of the corresponding U.S. manufacturing wage. By 1990, that had dropped to less than one-tenth. And today, it is approximately one-twentieth. Is it any wonder that runaway shops south of the border are the order of the day?

Consider the insanity of it all:

- U.S. manufacturing jobs are fleeing to Mexico's *maquiladoras;*
- the *maquiladoras,* in turn, are exporting cheap products to the U.S. consumer bubble;
- that bubble, in turn, is kept going by a speculative financial bubble maintained, in part, by massive Mexican debt payments to Wall Street;
- and those flows, in turn, are premised on the *maquiladora* export binge.

The result: U.S. industry and jobs are collapsing; Mexico's physical economy and labor force are being ground up; trade is booming; the foreign debt is being paid punctually; and Wall Street, including Señor Dr. Dracula, is laughing all the way to the bank.

Ah, the wonders of free trade and globalization!

Dollarization and Death

But the worst is yet to come. Observe the composition of *maquiladora* exports (**Table 1**). In 2000, some 54% of all *maquiladora* exports were "electrical and electronic goods and equipment," i.e., parts for computers, radios, TVs, and similar consumer items. This $43.1 billion in exports dwarfs even Mexico's oil exports, which amount to about $10 billion per year (depending on world oil prices). Another 10% of *maquiladora* exports was textiles and clothing, and 5% was auto parts. These three categories, which together account for almost 70% of all *maquiladora* exports, are principally composed of consumer goods which will plummet to near

TABLE 1
Mexico: Maquiladora Exports, 2000

	Billions $	% of Total
Electrical and electronic goods and equipment	43.1	54%
Special machinery and equipment	13.8	17%
Textiles, clothing, leather goods	7.9	10%
Auto parts	4.3	5%
Other	10.4	14%
Total	**79.5**	**100%**

Sources: Banco de México, INEGI.

zero when the Wall Street debt bubble bursts. Soon enough, the only thing Mexico will be able to export to the United States will be wave upon wave of desperate, unemployed workers.

In fact, such (legal and illegal) migration of labor into the United States—and the sizable flow of dollar remittances in the reverse direction—are already a rapidly growing feature of the crisis in Mexico, and across all of Central and South America as well.

For example, according to a recent study by the Inter-American Dialogue, remittances to Mexico from the 8 million Mexicans in the United States, were almost $5 billion in 1997, and may have risen to $7-8 billion in 2000. This is the equivalent of about 5% of Mexico's total exports.

The case of El Salvador is even more dramatic, and points to a broader issue. Worker remittances to El Salvador are 47% of its total foreign exchange earnings, i.e., they are about equal to all of El Salvador's other export earnings combined. To put it more directly, *El Salvador's principal export is its own labor force,* which its domestic economy clearly can no longer sustain.

This is not an anomaly. Guatemalan remittances are 20% of its export earnings. And Ecuadoran remittances have grown to the point that they are the country's number-two source of foreign exchange, second only to oil.

This phenomen of the imposed, involuntary export of large chunks of the labor force of Ibero-American nations, is one of the underlying economic realities driving the financial oligarchy's current campaign for Ibero-America to dollarize—i.e., to abandon their own currency and sovereignty, in favor of the U.S. dollar—and thereby put an end to the nation-state.

Four additional critical economic factors underlie the dollarization drive in Ibero-America:

1. The growing export-dependency of these countries on the United States (as shown abundantly in the case of Mexico);
2. The take-over of nearly all national banking by foreign banks, as *EIR* has documented (see "British Banks Establish Death Grip over Ibero-America," *EIR,* Aug. 22, 1997);
3. The conversion of all domestic debt (including bonds issued on the internal market) into de facto dollar-denominated foreign obligations; and
4. The growing preponderance of the international drug trade all across Ibero-America—which is, of course, also denominated in dollars.

Thus, El Salvador recently decided to join Argentina, Ecuador, and Panama in dollarizing. Their argument was straightforward: If most of our foreign exchange comes from dollar remittances from our people in the United States, and our trade is increasingly dominated by the United States, and our entire domestic financial and credit structure has become little more than an adjunct of the U.S. Federal Reserve, why bother with the fiction of keeping our own currency?

At the end of 2000, the Guatemalan legislature voted to allow the dollar to circulate as legal tender in that country—the first step toward full dollarization. One must ask: Is Mexico next? And will all of Ibero-America finally fully dollarize, and perhaps export 100% of its national output to the United States, at exactly the point that the dollar vaporizes, the U.S. market vanishes, and the entire *Titanic* finally sinks?

Such is the logic of free trade and globalization.

'Maquiladoras' Are A Cancer

The following is excerpted from "Mexico's Labor Force: 50% Unemployment, and Rising," EIR, *Feb. 28, 1997. In the almost four years since it was written, the trends have overwhelmingly confirmed its accuracy.*

It would be a mistake to consider the *maquiladoras* as part of the Mexican economy. . . . They may be located on Mexican soil; they may employ Mexican workers, but they are in fact nothing but foreign enclaves on Mexican territory, which assemble goods out of imported parts and export largely semi-finished and finished products, mainly to the United States. Even the miserable slave wages that the workers are paid scarcely have an impact on Mexico. It is well documented that a large share is used by the workers for purchases across the border in the United States.

The only thing that the *maquiladoras* leave Mexico, is a monstrous social and political bill for the "privilege" of providing slave labor to facilitate debt repayment. Gigantic urban ghettos of *maquila* workers and their families have spread along the border, with little or no infrastructure available. The squalor and health hazards are matched only by the slave-labor working conditions that the assembly workers (for the most part, young women and girls) are forced to endure.

In short, the *maquiladoras* are far worse than a foreign enclave on Mexican soil. By all rights, they must be considered an economic *cancer,* which has grown prodigiously on the body of the Mexican economy.