The Case of Mexico: 'Free Trade' Means a Costly Death

by Dennis Small and Ronald Moncayo

The Bush Administration is insanely insisting that on Jan. 1, 2003, the Mexican government of President Vicente Fox apply the scheduled activation of agricultural clauses of the North American Free Trade Agreement (NAFTA), by which Mexican tariffs on all but a handful of farm products the United States wants to export to that country, will be reduced to zero. This policy will wipe out what remains of Mexican agriculture, already devastated by free trade and deregulation policies first applied under IMF tutelage beginning in 1983, and then imposed with a vengeance since NAFTA's formal launching in 1992.

This upcoming stage of NAFTA will leave perhaps as many as *one million* impoverished Mexicans jobless and dislocated—on top of the 1.78 million already driven off the land by 9 years of NAFTA policies to date. Many of the newly unemployed will try illegally to enter the United States, as their only chance for survival.

The crisis cries out for Democratic Presidential pre-candidate Lyndon LaRouche's recent proposals for a crash infrastructure-building program on both sides of the border, to create urgently needed jobs. It is widely recognized that Mexico needs to *create* about a million new jobs per year—not lose that many—just to keep pace with its growing labor force. Yet Washington, at Wall Street's urging, appears determined to revive the "Paddock Plan" instead—a policy for intentional genocide put forward in the mid-1970s by Malthusian lunatic William Paddock.

At that time, Paddock, a Mellon and Gulf Oil-financed agronomist who worked for the U.S. government in Central America, said that the way to halve Mexico's population (then 68 million; today it is over 100 million) would be to "shut the border, and watch them scream." The "famine, war and pestilence" that would ensue, he said confidently, would do the job of reducing the population.

In 1976, Lyndon LaRouche delivered a nationwide TV address in which he warned of the Paddock Plan and its consequences. Today, under conditions of global financial breakdown, combined with the fascist vigilante methods advocated by U.S. Attorney General John Ashcroft for policing the U.S.-Mexican border ever more brutally—part of the so-called "war on terrorism"—today's version of the Paddock Plan will produce results at least as horrifying as originally envisioned.

Wall Street and the City of London financial interests have a lot riding on the purported "success" of NAFTA and its scheduled Jan. 1 update—which is one of the reasons that they have contrived, among other things, to hide about *two-thirds* of Mexico's actual public domestic debt. Politically, the financier interests are faced with growing antipathy around the world to the "free trade" dogma of the 1990's, which has been such an unequivocal failure. In Europe, there is hostility to the Maastricht Plan and its impossible budgetary constraints. Across Asia, there is a generalized unwillingness to be ripped apart again by speculative capital flows, as nations were in 1997. In Ibero-America, a region terrorized into submission to IMF policies beginning in late 1982, there is foot-dragging and other timid opposition to Washington's proposed hemisphere-wide Free Trade Agreement of the Americas (FTAA). This resistance is led by Brazil which, as the most industrialized nation in the region, has most to lose. And in the United States, there are also early signs of voters finally getting fed up with the disastrous policies of free trade, as evidenced in the recent Louisiana Senatorial election.

But the international financial elite cannot stop themselves from pressing forward on implementing the Paddock Plan—their own bankruptcy demands it—even though it may well prove their undoing.

Starving for 'The Market'

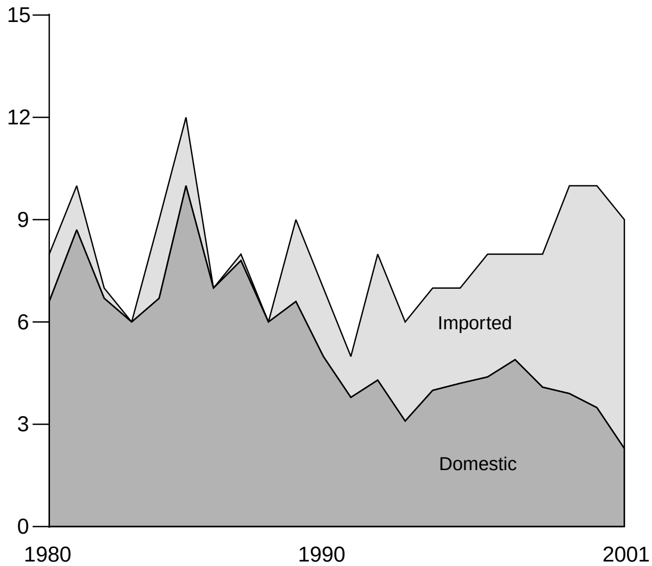
When NAFTA was finalized among the United States, Mexico, and Canada in December 1992, a time-bomb was built into the agreement which was set to explode a decade later—on Jan. 1, 2003. The original NAFTA, which was hand-crafted to open Mexico up to unfettered looting by international speculative capital, included provisions for general trade tariff reductions. However, certain essential agricultural products were considered so sensitive by Mexico at the time—since the ability to produce that food domestically was the only guarantee Mexico had that it could continue to feed its population—that they managed to exclude those items from the general regimen for an entire decade. At the time, many Mexicans thought that that was a lifetime away. Now, the day of reckoning has come.

On Jan. 1, 2003 Mexico will be forced to reduce existing import tariffs on 20 major agricultural products, down to zero. These include: chicken and other fowl (which now has a 49.5% tariff); potatoes (now at 52%); eggs (now at 9.5%);

FIGURE 1

Mexico: Rice Consumption

(Kilograms/Capita per Year)

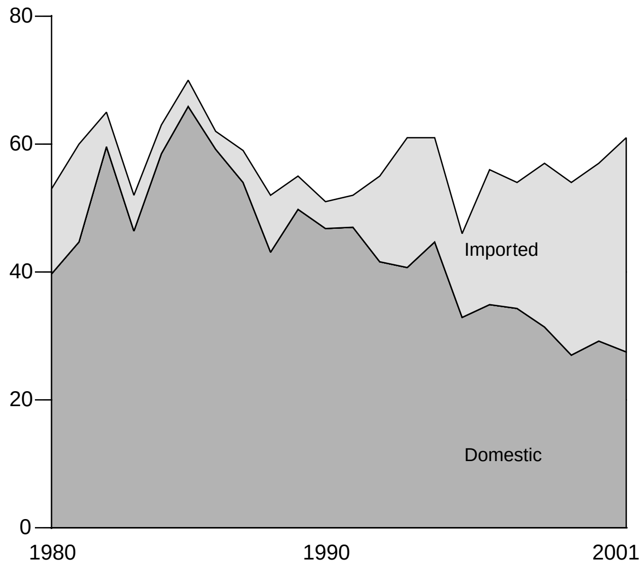


Sources: Ministry of Agriculture, Office of the Presidency (Mexico).

FIGURE 2

Mexico: Wheat Consumption

(Kilograms/Capita per Year)



Sources: Ministry of Agriculture, Office of the Presidency (Mexico).

and barley (now at 24.3%). All processed foods, including pasta, will also drop to a zero import tariff. Only a handful of remaining staples—including corn and beans—are excluded from these instant rigors, and will have their tariffs phased out between 2003 and 2008.

Mexicans are being told that the realities of globalization require that they compete in the world marketplace, even if it means the "downsizing" (read death) of Mexican food production. Americans, meanwhile, are being fed the line that U.S. farmers will be the beneficiaries of this dog-eat-dog market Darwinism—a lie, since it is only the giant food multinationals like Cargill, Tyson, and ADM which have muscled their way into the Mexican market with cheap exports.

The simplest way to get an idea of what the new, NAFTA update is going to mean, for both the United States and Mexico, is to look at what has happened with the agricultural products that were previously "liberalized" under NAFTA and IMF policies.

Take the case of rice, also a staple in the Mexican diet, which had its protective tariffs lowered years ago. In **Figure 1**), we present the respective contributions of domestically produced rice and imported rice to the Mexican diet, as measured by per capita consumption, over the period from 1980 to 2001. (In this case, as in the next three graphs, Mexican exports of the products shown are negligible.)

The first thing to note in Figure 1, is that domestically production of rice was decimated over the two decades in question. Between 1980 and 1990, it plunged from 6.6 to 4.0 kilograms/capita—a 39% drop. And then from 1990 to 2001, under NAFTA, it fell a further 43%, down to a meagre 2.3 kgs./capita. In other words, between 1980 and 2001, nearly two-thirds of Mexico's rice-producing capacity was wiped out by deadly free market policies.

Total rice consumption, however, merely stagnated in this period: it rose from 8 to 9 kilograms per capita, over 21 years. This is because imported rice took over the market, rising from 15% of total consumption in 1980, to about 50% by 1993, and then to a dramatic 74% today.

When the remaining import tariff is lifted on Jan. 1, the rapid, further destruction of Mexico's rice producers is widely expected.

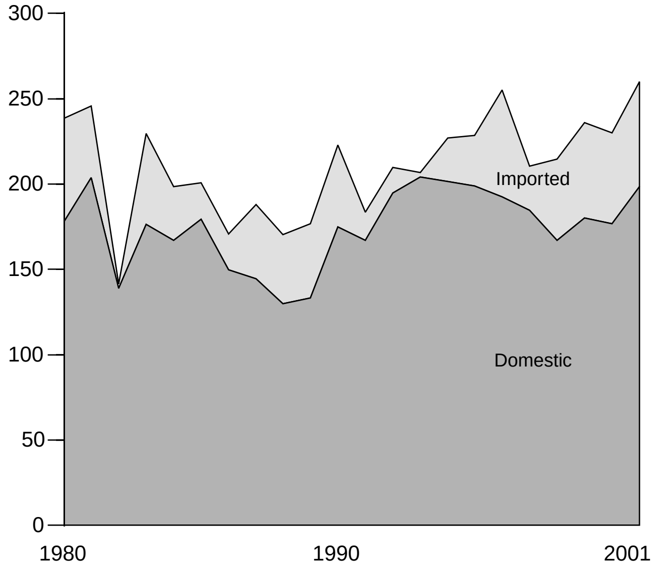
Figure 2 shows a similar process for wheat. Over the 1980's, Mexico's domestic production went up and down, but remained at about 40 to 45 kilograms/capita. During this period, imported wheat added about 10% to 25% to national consumption. But then, under NAFTA, domestic production plummeted by over 40%, from 47 down to 28 kgs./capita, while imported wheat grew steadily, and today comprises more than half of national consumption. As in the case of rice, total per capita consumption of wheat today is at about the same level it was back in 1980.

In **Figure 3,** we see that Mexican bean production has also dropped by nearly 25%. Here, however, foreign imports have not risen, so total national consumption of this crucial

FIGURE 3
Mexico: Bean Consumption
(Kilograms/Capita per Year)

Sources: Ministry of Agriculture, Office of the Presidency (Mexico).

FIGURE 4
Mexico: Corn Consumption
(Kilograms/Capita per Year)



Sources: Ministry of Agriculture, Office of the Presidency (Mexico).

component of the Mexican diet has dropped sharply from 20.4 kgs./capita in 1980 to 11.8 kgs./capita in 2001—a drop of over 40%. Beans are one of the items whose tariff will *not* be totally eliminated on Jan. 1, but will be phased out through 2008. That opening will decimate national production, over a five-year period.

Figure 4 presents the picture for corn, the most essential staple in the Mexican food diet. Here, national production per capita rose only slightly from 1980 to the present, and imports kept pace at about 25% of total consumption. Corn, too, has been granted a reprieve on the economic death penalty that NAFTA will impose—but only temporarily.

Nowhere To Go

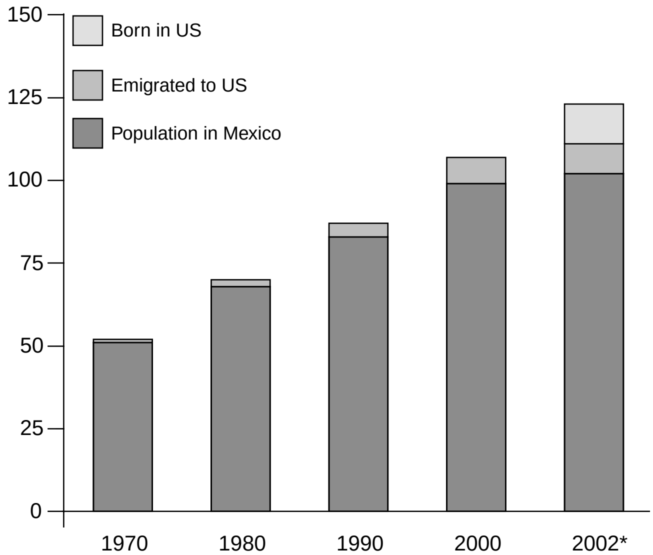
The free-market policies applied to date, which will be dramatically deepened on Jan. 1, included not only import tariff reduction as such, but also IMF-dictated cut-backs in government spending for the rural sector, and in both private and public credit issued for agriculture. Mexico's National Agricultural Council (CNA), one of the country's major farm organizations, reports that, from 1990 to the present, real government spending for the sector dropped by 53%, while credits plunged by 80%.

As a result of this process, over the nine years of NAFTA to date, *1.78 million jobs have been lost in the agricultural sector of the Mexican economy,* according to official statistics. Typically, these people either found temporary employment under slave-labor conditions in Mexico's *maquiladora* sector (as we discuss below); or in marginal activities in the "informal economy" of Mexico's teeming cities; or, they joined the growing ranks of Mexico's unemployed—or they migrated to the United States.

About a half-million Mexicans are believed to enter the United States every year, most of them illegally. Today, there are an estimated 8.9 million Mexican immigrants currently in the United States (see **Figure 5**). There are an estimated additional 12 million Mexicans who were born in the United States, the first-generation children of those who emigrated. Taking these two categories on top of the 102 million Mexicans who still live in the country, the total natural population of Mexicans is about 123 million—17% of whom are currently in the United States. The proportion of the full Mexican labor force now in America is even higher. This represents a form of disguised unemployment, whose existence and meaning will soon make itself felt.

The looming question is: What is going to happen now, as Mexico's desperate debt situation makes it impossible to keep paying for foreign food imports, and now that two-thirds of domestic production capacity has been wiped out in crucial staples such as rice? How will Mexicans eat? Where will the million or more newly unemployed go, now that even the *maquiladora* sector is collapsing, and as Aschcroft-style policies shut the U.S-Mexico border? This is the Paddock Plan of free-trade genocide.

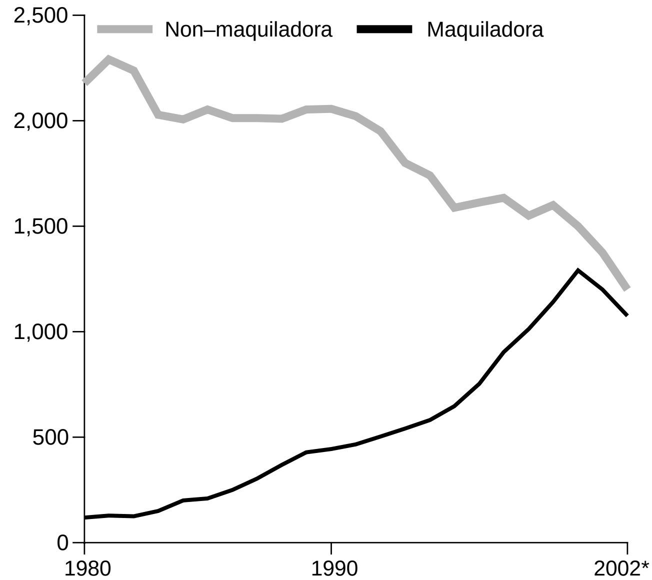
FIGURE 5
Total Population of Mexicans
(Millions)



* Projected.

Sources: FAO; INEGI, Office of the Presidency (Mexico).

FIGURE 6
Mexico: Employment in Manufacturing
(Millions)



*Projected.

Sources: INEGI (Mexico); *EIR.*

Maquiladoras: The Model That Failed

For the last 20 years, desperate Mexicans who had been driven off the land or were otherwise unemployed, were often able to find quick employment in Mexico's *maquiladoras.* A *maquiladora* is an in-bond assembly plant, usually located just across the U.S. border into Mexico, which imports raw materials and semi-finished products (mainly from the United States), and exports finished consumer goods (mainly to the United States)—all without any tariffs.

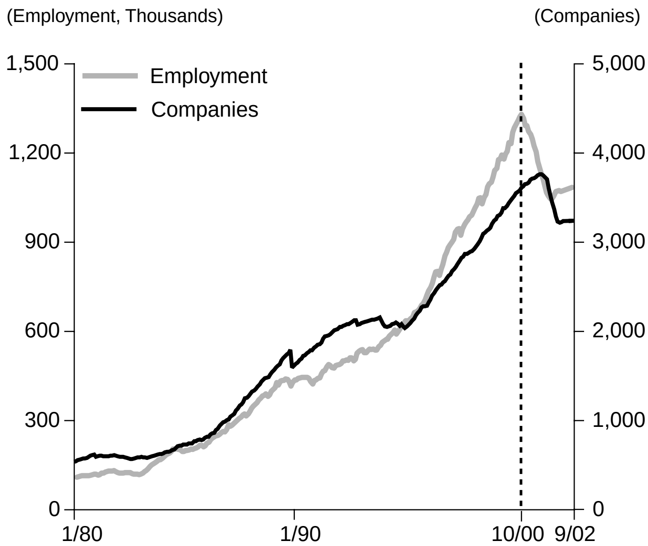
Maquiladoras have been promoted by the financial establishment as the perfect model of free-market economics, an example to be aggressively imitated throughout the world. U.S. economist Lyndon LaRouche, on the other hand, has denounced these plants as "an Auschwitz south of the border," given their horrendous working conditions, the total absence of any economic infrastructure where they are located, and above all because of the deadly looting process involved. From a strict, physical-economic standpoint, the *maquiladora* sector cannot properly be considered part of the Mexican economy: it is a foreign enclave which is located on what is geographically Mexican territory, but in no way contributes to the Mexican physical economy. In fact, it detracts from it; it is in reality an economic cancer.

But what "worked" for 20 years, no longer does. As **Figure 6** shows, employment in *maquiladoras* began to plummet in October 2000. Why then? Because about six months earlier, in March-April 2000, the entire "New Economy" lunacy began to unravel. The ludicrous dot.com stock market bubble popped, and the Dow Jones has been heading south ever since; and, most importantly, the U.S. consumer goods market, which has been the "importer of last resort," as *EIR* has extensively documented, began to contract. So *maquiladora* employment followed close behind. Within a few months time, beginning in June 2001, *maquiladora* companies began to fold, and the total number of companies has been dropping ever since.

In the 18 months from its October 2000 employment high of 1.348 million workers, to its low in March 2002 of 1.090 million, 21% of the *maquiladora* labor force was laid off. Free trade ideologues, both inside and outside the Mexican government, have seized upon the tiny uptick over the last few months to argue that "the recovery is just around the corner." The reality, of course, is that a full-blown depression is now careening towards Mexico—and the United States, its erstwhile importer of last resort.

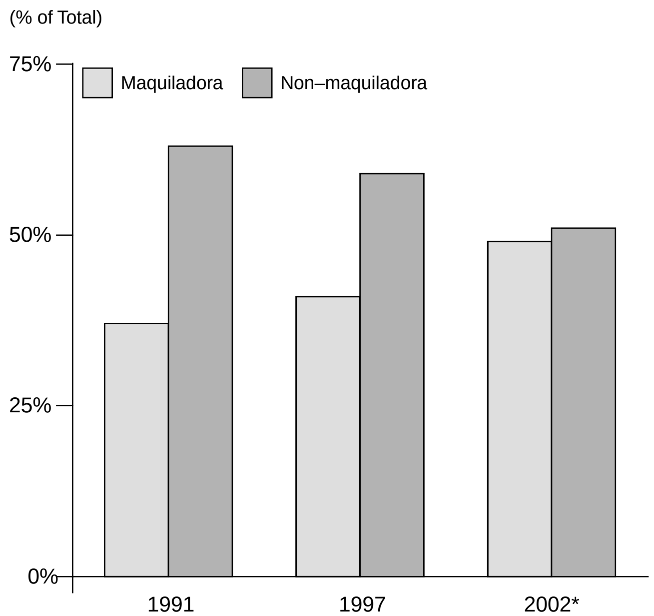
The *maquiladora* myth has served to mask real Mexican unemployment, and the broader decline of its physical economy. For example (see **Figure 7**), from 1980-2000, as *maquiladora* employment was rising, employment in the Mexican manufacturing sector proper (excluding the *maquiladoras*), was steadily falling. But then, beginning in 2000, at exactly the point that *maquiladora* employment began to fall, real

FIGURE 7
Maquiladoras: Employment and Number of Companies



Sources: INEGI (Mexico).

FIGURE 8
Mexico: Exports by Sector



* Projected.

Sources: INEGI, Office of the Presidency (Mexico).

manufacturing employment began to decline at an even more rapid rate.

The simultaneous collapse of *both* of these sources of employment will unleash an economic and social shock-wave in Mexico—*at exactly the point that the bottom is about to fall out of the agricultural sector.*

Is it any wonder that the entire spectrum of Mexican peasant and labor organizations, opposition political parties, and even elements of President Fox's own PAN party, have protested vehemently against the scheduled Jan. 1 measures? Fox has so far insisted that his administration will proceed to implement them on schedule.

'Brazil, Why Can't You Be More Like Mexico?

There is another great myth about NAFTA, and its *maquiladora* "miracle" in Mexico, which has been used extensively to convince other nations to sign on to free trade agreements, such as the FTAA for the Western Hemisphere. Brazil has been particularly targeted with this argument, that under globalization, the only way for an economy to expand is *via* exports. The claim is that the expansion of a nation's *internal* market—which is, of course, the hallmark of the American System of Economy which has been uniquely successful over centuries—is now a dead end, and that countries have to learn to either "export or die."

The reality of globalization, however, is rather to "export *and* die," as the Mexico case demonstrates. In **Figure 8,** we see the way in which exports from the *maquiladora* sector have progressively come to represent nearly half of all Mexican exports.

Hardly a week passes that an article doesn't appear in the major financial press of London or the United States, which lectures Brazil, in particular, that it will never become an economic powerhouse if it keeps focusing on its internal market, and doesn't start exporting more. Brazil only exports 11% of its GDP, as compared to a more "healthy" 31% in the Mexican case, they argue.

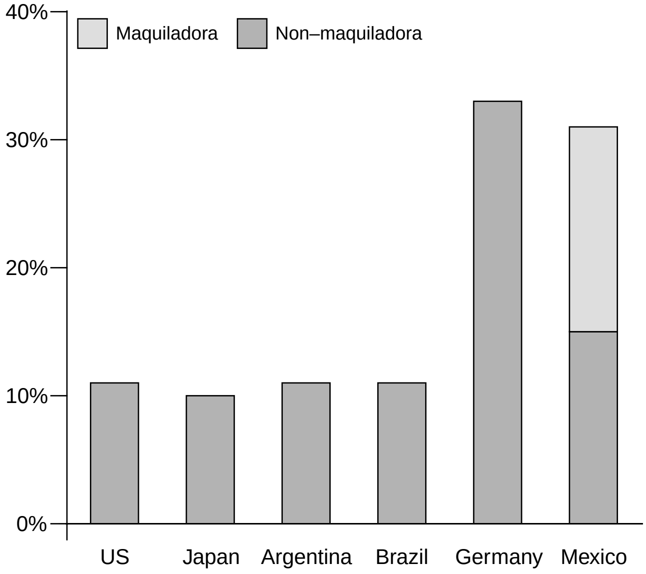
However, it is useful to look at the components of Mexico's trade, as we do in **Figure 9,** which shows that about half of that total comes from the *maquiladora* foreign enclave. The Mexican economy proper exports about 15% of its GDP. These figures are also usefully compared to those of other developing countries, such as Argentina, and also those of some major industrial economies, such as the United States and Japan, whose percentage of GDP exported is almost identical to that of Brazil. (Germany is a special case.)

This is by no means a technical question. Brazil is being told by the IMF and its creditor banks, that it must export a much larger share of its economy—in order to earn dollars with which to pay its foreign debt. And Mexico, which has achieved these results only by the *maquiladoras,* is being pointed to as the example to follow.

The media and spokesmen of the the international financial establishment are wielding another "look at Mexico" argument. Mexico, they have discovered, has just passed

FIGURE 9

Mexico: Exports as a Percentage of GDP

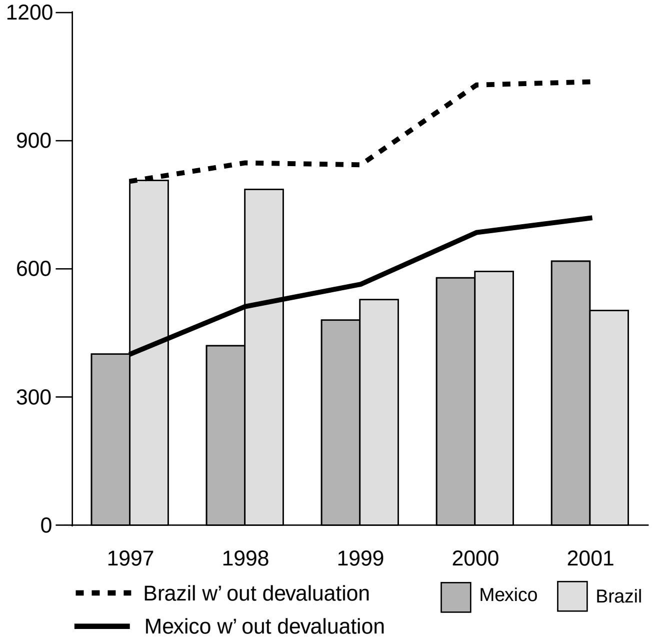


Sources: World Bank; INEGI, Office of the Presidency (Mexico).

FIGURE 10

Mexico and Brazil: the GDP Fraud

($ Billions)

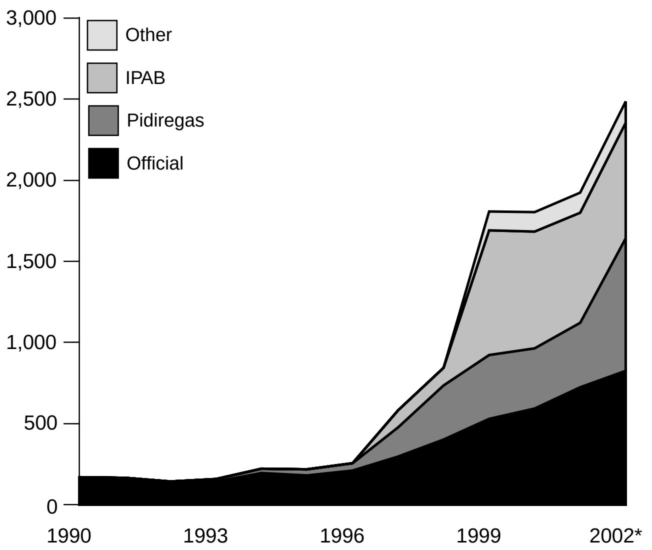


Sources: World Bank; Banco de México (Mexico); Central Bank of Brazil.

FIGURE 11

Mexico: Real Public Debt

(Billions of Pesos)



* Projected.

Sources: Banco de México, Office of the Presidency (Mexico); *EIR.*

Brazil as the 9th "largest economy" in the world—which purportedly proves that only free market, export-oriented economies work. Measured in terms of GDP—which is always calculated in *dollars* and not local currency, supposedly in order to compare economies—Mexico did indeed surpass Brazil in 2001 (see **Figure 10**). But the reasons for this are transparent, for anyone who takes the trouble to look at the numbers: Brazil's currency, the real, was massively devalued in early 1999 as the result of an international speculative assault. Therefore, the same, or an even slightly larger real-denominated output in Brazil, was all of a sudden worth significantly fewer *dollars*, and so Brazil's official GDP declined from 787 billion dollars in 1998 to 529 billion dollars in 1999—another case of what can rightly be called "bankers' arithmetic."

Mexico's peso, on the other hand, has only been devalued mildly over the past 4-5 years, so that its dollar-denominated GDP continued to grow. All of this smoke and mirrors can be readily dispelled by simply calculating what the GDP would have been, in both cases, had there been no devaluations. Figure 10 presents the results: in 2001, Brazil's GDP would have stood at 1,041 billion dollars, and Mexico's would have been 722 billion dollars. (This relation more closely reflects the reality of the two *physical* economies in question—although GDP figures, by their very monetary nature, do not capture the actual physical economic reality at issue.)

Why engage in such transparent fraud? Why the bankers' desperation in all of this? Because they are bankrupt, and are having a progressively more difficult time concealing that fact.

Bankers' Arithmetic Revisited

Take the case of Mexico's public domestic debt—i.e., what the government owes inside the country. In **Figure 11,** we present the shocking fact that the official numbers put the total at "only" 825 billion pesos (about $82.5 billion, whereas the reality is that Mexico's public domestic debt is about *three times* that large. These huge sums are concealed "off budget" in what is euphemistically called the "contingent debt." That "contingent" debt includes two major components, which are like the case of the elephant sitting in the middle of the kitchen, which everyone denies even exists.

The first is the case of the so-called "Pidiregas," which stands for "Projects of Deferred Impact on the Registry of Expenditures." Behind that mouthful is a very simple con game. Beginning in 1996, and then with a vengeance under President Fox in 1999, the Mexican government began to contract with various companies, principally foreign, to construct electricity plants and similar projects in Mexico, but "deferred" repayment to those companies by 5-10 years, at which time they will be reimbursed out of the revenue stream coming from the sale of the electricity which they will produce. Presto: no debt! (At least not official debt.) There are, however, about 816 billion pesos in binding contracts for future Mexican government payments—i.e., *debt.* This is almost as much as the entire official public domestic debt.

This clever mechanism has also served to sneak past the Mexican Constitution and other laws which prohibit foreign companies from participating in the critical energy sector, oil included.

The second elephant-sized component, is the IPAB debt. This stands for Institute for Bank Savings, and represents another 714 billion pesos in debt, which was originally owed by Mexican private banks, but which was taken over by the Mexican government when it bailed out those banks in the mid 1990's—after they had been bankrupted by foreign speculative looting. The numbers don't begin to appear even as part of the "contingent debt" until 1998. That is when the Mexican government created the IPAB to formally take over the debt which had been held by FOBAPROA, a government-created trust fund which had been concocted in order to bail out the banks.

This, too, is a de facto obligation of the Mexican government, bringing its total real domestic obligations to nearly 2.5 trillion pesos (about $250 billion)—more than three times the official debt.

Will the nation of Mexico allow itself to be dismantled, its population subjected to new NAFTA measures which amount to the Paddock Plan, all in order to maintain this sort of absurd debt bubble? Will other nations and regions drop their growing objections to free trade, in light of such a "success story?"

To Save Mexico, Let Us Bury NAFTA Now

This statement was issued on Dec. 4 by Marivilia Carrasco, president of the Ibero-American Solidarity Movement (MSIA) in Mexico.

> Wherever one looks, discord, decomposition and slavery go hand in glove with the British system of free trade; on the other hand, harmony, freedom, wealth and strength grow in all of those countries which resist that system. —Henry Carey, 1859

With the launching of the new phase of the North American Free Trade Agreement (NAFTA) that goes into effect in 2003, under which Mexico will eliminate what remains of protectionist tariffs for its agricultural sector, new and totally justified protests have taken place, on the part of widely varied groups of agricultural producers and political circles in the country. The majority of these reactions denounce the protectionism and subsidies of the United States and Canada, and call for a moratorium on the implementation of this new outrageous phase of NAFTA. That, however, will not solve the problem.

The problem is neither the subsidies nor the protectionism of the United States and Canada; nor is the answer to try to gain some time so as to postpone the death of the Mexican farmer. The problem is the entirety of the free trade policy on a world scale!

Precisely what the MSIA and U.S. Presidential pre-candidate and economist Lyndon H. LaRouche, Jr. warned of, some ten years ago, has come to pass: NAFTA is a euphemism for creating an "Auschwitz"—a concentration camp of slave labor—on the southern border of the United States. The coming phase will drive several million new unemployed and starving Mexicans into trying to cross the border into the United States—where the demand is to open the borders to free trade, but to shut them to migration.

All of NAFTA Must Be Repudiated

To survive, it is urgent to recognize NAFTA as the cruel farce that it is, along with all the free trade policies that would be imposed under a Free Trade Area of the Americas (FTAA) and similar instruments around the world, such as the Maastricht accords in Europe. Fraudulent statistics of Mexico's supposed success have been fabricated in order to similarly swindle the other countries of Central and South America, and the entire world. Increased Mexican exports, the ostensible proof of the "success" of NAFTA, are an economic fraud, since in both the countryside and in the assembly industries