The Jus Semper Global Alliance

Living Wages North and South

Sustainable Human Development

September 2017 A TLWNSI ISSUE COMMENTARY

Mexico's Dependent Economy – Manufacturing wages lower than in China

James M. Cypher*

Trump behaves as if Mexico tyrannises the US, taking its jobs while sending migrants north. However, it is the US that has impoverished Mexico

President Trump's commerce secretary Wilbur Ross said on 9 March that the US has 'been in a trade war for decades — that's why we have a deficit'[1]. At his nomination hearing, the billionaire banker (known for predatory restructuring of companies) said that his priority was to end this situation and renegotiate the North American Free Trade Agreement (Nafta) signed with Mexico and Canada in December 1992. The Trump team holds it responsible for the US's trade deficit of $500bn in 2016, with Mexico accounting for 12%.

Made in Mexico: speaker assembly line at a maquiladora factory in Ciudad Juárez', close to the US border J

The terms of the renegotiation remain vague, perhaps because of unexpected delays in the approval process designed to put this U-turn in America's trade policy in the hands of Ross, Peter Navarro, director of the National Trade Council, and Robert Lighthizer, chief trade negotiator. Trump is keen to start the 'geographic transition'[2] — a relocation of plant and equipment to the US, marking the re-industrialisation of the economy — and has said he will give notice of the start of the renegotiation process 'very soon'.

[1] 'Sec. Ross on Nafta, China, and border adjustment tax', Bloomberg.com, 8 March 2017.

[2] 'Canada will have to "make concessions" in Nafta renegotiations: US Commerce Secretary', *The Globe and Mail*, Toronto, 8 March 2017.

On 3 March the administration, through Ross, criticised for the first time the key mechanism of Mexico's export-boosting: wage stagnation. Though Ross has always been hostile to raising the minimum wage in the US, he called on Mexico to raise its own: 'The theory of Nafta had been [there would be a] gradual convergence of living standards between Mexico and the United States. That really hasn't happened on the Mexican side. The minimum wage ... has barely gone up.' (In the auto industry, research suggests that under conditions of comparable productivity Mexican wages are 10% of US wages.) 'That means that employers can still find significantly cheaper labour in Mexico. It also means that Mexican workers don't have the money to buy higher-priced US-made goods'[3]. Were Mexican workers' wages to rise, the US trade deficit would shrink.

Mexico's oligarchs and political elite were shocked to discover that they might suffer from the economic dependency they had imposed on their people. After the signature of Nafta and enactment of the 1993 foreign investment law, which opened up almost every sector of the economy except oil to unconditional investment from the North, US multinationals rapidly asserted their dominance in Mexico, delighting the political elite. While overseeing over the subjugation of Mexico's production infrastructure to US needs, President Ernesto Zedillo (1994-2000) coined the term 'globalphobia' to mock anyone who doubted that free trade would guarantee prosperity for Mexico and boost economic growth. Like many of his colleagues and friends, the neocientíficos, he had a PhD in economics from an American university.

Exports the priority

The presidencies of Carlos Salinas de Gortari (1988-94) and Zedillo were key in reorganising Mexico's economy around a single priority — exports. This had happened before under the presidencies of Porfirio Díaz (1876-80 and 1884-1911), based on mining and agricultural exports; now, it turned Mexico into an exporter of manufactured goods. With help from the World Bank, the International Monetary Fund and the Inter-American Development Bank, and the unconditional backing of employers' organisations and the Mexican oligarchy, Salinas de Gortari and his acolytes re-engineered the country.

The laws allowing the creation of maquiladoras — largely tariff-free assembly plants specialising in low-skilled work, located near the US-Mexican border — date back to the 1960s, but they were rare until Salinas took office. From 1981 to

The political elite saw Mexico's role as limited to dumping –cheap labour, environmental and fiscal.

2000, maquila exports rose by 16% a year, while non-maquila manufacturing exports achieved 13% a year. By 2004, 80% of total merchandise exports came from manufacturing, and 90% of all exports (including oil and tourism) went to the US.

But these statistics are deceptive, as the growth of Mexican industry did little to enrich the country: 42% of the value of manufacturing exports was imported parts and components, made in the US. Flooded with US investors, Mexico remained passive: it developed no technology, and few enterprises or oligarchs were willing to invest in plant and equipment or training managerial cadres that would allow them to participate in the value chain as local suppliers. The political elite saw Mexico's role as limited to dumping – cheap labour, environmental and fiscal.

Two distinct, unconnected economies emerged: a dynamic economy led by cheap exports and an inefficient one focused on the domestic market. Nafta allowed heavily subsidised US agribusiness conglomerates to flood the Mexican market with beans, rice, corn and other staple foods. Small and medium enterprises that had grown up under the industrialisation policies of the 1930s lost access to finance and were unable to withstand the foreign competition when Mexico acceded to the General Agreement on Tariffs and Trade (GATT) in 1986, then Nafta, and finally the World Trade Organisation (WTO), which succeeded GATT in 1995. Local industries collapsed.

[3]↩Chris Isidore, 'Wilbur Ross wants a higher minimum wage — in Mexico', CNN Money, 3 March 2017.

One predictable result was that poor rural Mexicans were forced to emigrate. Between 2000 and 2005, more than 400,000 a year moved to the US; by 2009 there were more than 12 million. Employment gains in manufacturing exports were offset by losses in industry, agriculture and mass retail. In just a few years, the US supermarket chain Walmart became the largest private-sector employer in Mexico. In the context of this economic dualism, average wages remained at 60-70% of their 1981 level from 1988 to 2005.

'The Mexico moment'

In 2001, when it was announced that China would join the WTO, gaining free access to the US consumer market, Mexico's export-led model began to falter. Growth of goods and services exports slowed to an average annual rate of only 4.1% between 2000 and 2016, while GDP growth averaged 2.0%. Average annual population growth was 1.4%. Under these conditions, the improvement in the standard of living would have been limited even if the additional wealth had been distributed equally. It was not.

In 2012 the Institutional Revolutionary Party (PRI) returned to power after 12 years. This was widely acclaimed in the media and celebrated by the oligarchs as the arrival of the 'Mexico moment'. But the main changes the PRI made were to deregulate the labour market and privatise Mexico's national oil company, Petróleos Mexicanos (Pemex). After a small initial growth spurt, policy decisions soon stifled the economy. The attempt to sell Mexico's oil reserves was hindered by global overproduction. The oligarchs are silent when things go badly for the people, but by 2016 they could no longer overlook the failures of Enrique Peña Nieto's government, whose popularity ratings were the lowest ever registered.

Intellectually bankrupt as they are, the Mexican elite are vulnerable to the slightest political ripple, and Donald Trump's election as US president caused a tsunami. Nafta had guaranteed them a comfortable life, but Trump was calling it 'the worst trade deal in [US] history'. Seized with fear, the government attempted to strengthen its dumping policies. One of the key figures was the powerful treasury secretary, Luis Videgaray Caso, a friend of Salinas de Gortari's finance minister Pedro Aspe, proof of Salinas de Gortari's influence on the current government.

With recession already looming, the renegotiation of Nafta would further weaken Mexico's economy. The Trump administration has repeatedly suggested that it could impose a tariff of 35% on auto sector exports to the US, and there is talk of imposing a tax of around 20% on all imports. This would be a devastating blow to Mexico, which generates 28% of its GDP from exports to the US.

It is hard to see how Mexican manufacturers could cut their costs enough to compensate for these measures. The Spanish daily El País has revealed that wages in northern Mexico are already '5-7% lower than those paid in China'[4]. Mexico could take advantage of the situation to escape its economic dependency, but regardless of Peña Nieto's promise to develop the 'made in Mexico' brand, this would be tricky: pervasive poverty, the scale of the informal economy, low wages and the inability of the narrow local credit system to stimulate demand would complicate the task for any politicians willing to attempt it. Such politicians are rare. Unless dissent within the US state apparatus forces Trump to review his trade policy plans, the Mexican elite will be caught once again in the dependency trap.

[4] ↩'La retórica proteccionista de Trump pone en alerta Ciudad Juárez' (Trump's protectionist rhetoric rings alarm bells in Ciudad Juárez), *El País*, Madrid, 22 February 2017.

Related links:

- **Jus Semper**
- **This article was originally published in Le Monde diplomatique. To subscribe to Le Monde diplomatique in English, visit www.mondediplo.com.**

❖ **About Jus Semper:** The Living Wages North and South Initiative (TLWNSI) constitutes the sole program of The Jus Semper Global Alliance (TJSGA). TLWNSI is a long-term program developed to contribute to social justice in the world by achieving fair labour endowments for the workers of all the countries immersed in the global market system. It is applied through its program of Corporate Social Responsibility (CSR) and it focuses on gradual wage equalisation, for real democracy, the rule of law and living wages are the three fundamental elements in a community's quest for social justice.

❖ **About the author:** James M Cypher is economics professor at the Universidad Autónoma de Zacatecas, Mexico and co-author with Raúl Delgado Wise of Mexico's Economic Dilemma: the Developmental Failure of Neoliberalism, Rowman & Littlefield, Lanham (Maryland), 2010.

❖ The responsibility for opinions expressed in this work rests only with the author(s), and its publication does not necessarily constitute an endorsement by The Jus Semper Global Alliance.

The Jus Semper Global Alliance
Web Portal: www.jussemper.org
E-mail: informa@jussemper.org