'A question of national sovereignty': Will Mexico agree to join GATT?

by Carlos Cota Meza and Timothy Rush

Mexican labor leaders and nationalist industrial factions have launched a last-minute fight to stop Mexico's entrance into the General Agreement on Tariffs and Trade (GATT). The fight may succeed, especially in light of the excitement sparked in Mexico by the fight for economic sovereignty being waged by the Alan García government in Peru; but it is an uphill battle.

Even by the estimation of the pro-GATT lobby itself—which now has the upper hand in the government—membership will have almost no effect on stimulating Mexican exports. But it will have a decisive effect in bankrupting a significant component of what remains of Mexican industry.

Mexico, alone among the large developing and developed countries, has refused to join GATT, which was founded as the "free trade" arm of the Bretton Woods monetary system after World War II. One of the largest and most prestigious of the national industrial confederations, the National Confederation of Manufacturing Industries (Canacintra), was indeed born as a by-product of business community opposition to GATT.

Mexico's objections to GATT were based on principles like those of Alexander Hamilton, who argued for the protection of "infant industry" in the United States. This demand has particular validity for Mexico, especially as it began to shift, in the 1970s, away from a purely import-substitution model of development, toward development of the rudiments of an in-depth industrial capability.

In 1980, then-President José López Portillo held a consultation with all relevant interest groups in the nation to reassess Mexico's traditional anti-GATT posture. The result was a 6-3 vote in the Cabinet to stay out.

But the man who in 1980 drew up the brief favoring membership—Undersecretary of Commerce Hector Hernández—did not give up. When he rose to become commerce minister under President Miguel de la Madrid, he spearheaded an unrelenting campaign, closely coordinated with the International Monetary Fund and Mexico's bank creditor committee, based in New York, to break Mexico's stubborn resistance.

At the end of July of this year, while Mexico was reeling from a second economic pounding as devastating as the 1982 blowout, Hernández went public with a call for joining GATT—the first minister in any post-war Mexican government to do so. On Aug. 9, in a cautiously phrased statement to Canacintra, President de la Madrid indicated that the government was indeed leaning toward this position. He said he was open to "full national debate" on the issue—and he is getting it.

Outcry from business, labor

Canacintra President Carlos Mireles delivered one of the strongest salvos, to the President's face, in his keynote to the same convention. If Mexico enters GATT, he warned, "there will be crisis, unemployment, and drastic social consequences. Fifty years of effort to provide employment will be finished." National industry is the "front line of progress" in the country, Mireles said, and GATT would bring its collapse.

The Mexico City daily *El Universal* immediately backed the Confederation. In an editorial the next day, it wrote: "The question of GATT is not simply a commercial one. It has become a question of national sovereignty, and should be discussed in those terms."

On Aug. 5, Fidel Velázquez, head of the giant Mexican Workers' Confederation (CTM), told the press: "We should not be subject to rules imposed by others, which are those which the others control. Mexico can operate without GATT, it can have greater liberty. The opinion of the commerce minister is very respectable, but we do not take it as the formal opinion of the government."

Budget cuts and austerity

But one of the clearest signs that the pro-GATT operatives in the government have the upper hand, is the commerce ministry's decision in late July to reorient foreign trade policy, along the lines that GATT membership would entail. Proponents of entry are saying that this *de facto* compliance might as well be backed by official membership, so as to get

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the presumed "benefits" of formal membership too.

The changes include:

- In July, the government abolished the requirement for prior import permits for 37% of Mexico's import bill;
- On Aug. 7, Mexico removed import licence requirements in border zones from 333 products, including auto parts, newsprint, chemicals, and agricultural machinery. Restrictions remain on 575 products which the government maintains are produced in sufficient volume domestically, and on 909 products in which Mexico is viewed as particularly vulnerable to unjust competition.

The ferocity of the pro-GATT drive is a confession of failure by the pro-GATT majority in the economic cabinet. They have attempted to turn Mexico into an "export-led" economy, with an unrelenting program of 1) budget cuts (hitting state-led infrastructure and industry), 2) "containment" of wages (40-50% cuts in real purchasing power), and 3) constant devaluations of the peso.

In late 1984 and early 1985, there was a slight "reactivation" of the national economy, based on wage increases won at the beginning of the year and a small increase in public and private investment, which favored an increase in imports. With the slight economic upturn, the export program of the government (PIRE) fell apart. As imports increased, and some products intended for export started to find markets at home, the trade surplus suddenly began to shrink.

The so-called structural change of the past three years was shown to be a fraud. A real export capacity has not been developed; Mexico is exporting what it *should* be consuming. The cut in imports that has occurred since 1982 has not led to increased domestic production; it simply means that Mexico has stopped investing and producing.

The 'emergency measures'

The emergency government measures of July 23, dictated by the International Monetary Fund, are more of the same. The government admitted for the first time that the economic crisis was not just due to falling oil prices and other external factors, but also to the internal debt. It blamed the public budget deficit for inflation, which is running at 60% for the year—some 30% higher than government expectations.

Indeed, the budget exercise of 1985 was aimed at reducing the public deficit, mainly by 850 billion pesos of cuts in spending on operating costs and investment, as well as by "containment" of the wages of public-sector employees.

Government investment spending covers key components of the national economy: infrastructure, energy, and basic products. It is to this sector that the state channels some 95% of its participation in economic activity. The cuts in this area represent a decline in the real development potential of the economy and a strategic vulnerability to national sovereignty.

And despite the budget cuts, inflation has not gone down. Even though the deficit has been lowered to almost half the level it was in 1983 and less than a quarter of the level of 1982, the rate of inflation is still increasing!

As part of this schizophrenic economic policy, it was decided that the budget, besides its nominal revenues, should be financed by issuing government bonds, which would pay attractive interest rates to depositors. These treasury certificates are known by their Spanish acronym, CETES.

The interest paid for these bonds has grown at an accelerating rate, to cover the needs of financing the budget and to cover the interest on these bonds themselves. Thus, the state is financing what is missing from its budget with loans obtained in such a way, that the principal factor causing an increase in the budget deficit, is the very form in which the state has been financing the previous deficits!

This is the reason why the new packet of economic measures included a "temporary" increase of up to 90% in mandatory reserve ratios for commercial banks. The situation has gone to the extreme of leaving the national banking system without any liquidity of its own—in order to keep the government free from the "sin" of printing money to meet the demand for currency, provoked by its own inflationary issuance of CETES.

This is the "genius" of the pro-GATT financial strategists of the government, Miguel Mancera Aguayo of the Bank of Mexico, Jesús Silva Herzog of Finance, and Carlos Salinas de Gortari of Planning and the Budget.

Interest payments soar

According to the finance ministry's figures, in the first five months of the year, the government's domestic debt increased by 5 trillion pesos, on which it must pay 2.5 trillion pesos in interest (50%). This sum exceeds that assigned to costs of investment in the budget—2.4 trillion pesos.

National industry faces a cost squeeze, principally because of the high interest rates. The businessman who says that the principal cost pressure he faces is from wages is lying; indeed, this is the only area of expense in which he has obtained substantial savings.

Industry has been exhausted by the financial cost of the high interest rates, by the contraction of the internal market, and by the increase in fixed costs, since a large part of installed capacity is idle because of the overall recessive IMF economic program.

If the de la Madrid government wants to get out of this economic dead end, it will have to join Peruvian President Alan García's fight to end the IMF's austerity regime and stretch out foreign debt payments; it must also opt for a drastic reduction in internal interest rates and an extension of internal debt payments (the CETES). If these measures are matched with an increase in real salary levels, to recoup at least a large portion of the 50-60% of purchasing power which has been lost, then the basis for a real recovery would be at hand.