Shifting Gears in Mexican Industry

A bold plan to modernize Mexico's aging industrial plant has been proposed.

Numerous countries around the world have found themselves confronted with the need to transform their productive plants in order to survive and compete in the international marketplace. Since the 1960s, the rules of industrial production have been gradually changing to the point that today countries like Mexico are faced with the problem of how to deal with increasingly outdated installations and technology.

This situation has given rise to a new concept: industrial reconversion, also called modernization, readjustment or simply the restructuring of the industrial plant. When people speak of industrial reconversion, they imply that the previous model of industrial development is now obsolete. In Mexico, that model has led to irrational internal growth and difficulties in staying competitive on the rapidly changing international market. The situation is clearly compounded by the severity of the country's crisis.

In official Mexican circles, reconversion is understood as a strategic policy proposal. It is an ambitious plan intended to deal with the urgent need to transform the country's productive apparatus. In addition, it recognizes that transformation is not a passive process of reinsertion in the international market, but rather demands the correction of past vices and insufficiencies to create a new dynamic style of growth and beneficial participation in the marketplace.

Photo by Rogelio Cuellar

Workers few losing their jobs through reconversion

In November 1986, Alfredo del Mazo, Minister of Energy, Mining and Para-State Industries, outlined the major elements of reconversion during a session with the country's House of Representatives. The goal is to make Mexico into an industrial power by the year 1990. With this reorientation, the government hopes to balance the trade ledgers and reduce vulnerability to external factors, as well as to guarantee the production of basic goods and strategic inputs to strengthen and redirect the development of the internal market.

THE NEED FOR RECONVERSION

Reconversion has been universally applied by the current government as a stage of structural industrial transformation in both the private and public sectors. This complex process involves three major strategic tasks: financial order, increased labor productivity and administrative modernization. Because of Mexico's current socio-economic reality, reconversion will nonetheless, imply a series of political and social costs.

Photo by Rogelio Cuéllar

Workers worry about losing their jobs or being transfered to far-off provincial sites

The most outstanding features of Mexico's overall development situation include the following: more than $100 billion in foreign debt, an unprecedented increase in underand unemployment, an increase in the federal deficit, three-digit annual inflation (more than 100% last year), a drop in investment and an important reduction in the availability of foreign exchange due to greatly lowered oil export earnings.

Other characteristics of the national productive plant must also be added to the panorama, since they both motivate and challenge the reconversion process. Among these is the fact that the current administration has sought to remove some 438 companies from the public sector. 269 are being liquidated, 101 haye been put up for sale (by October 1986, however, only 34 had been sold), 58 merged with other companies and 30 transferred to state governments.

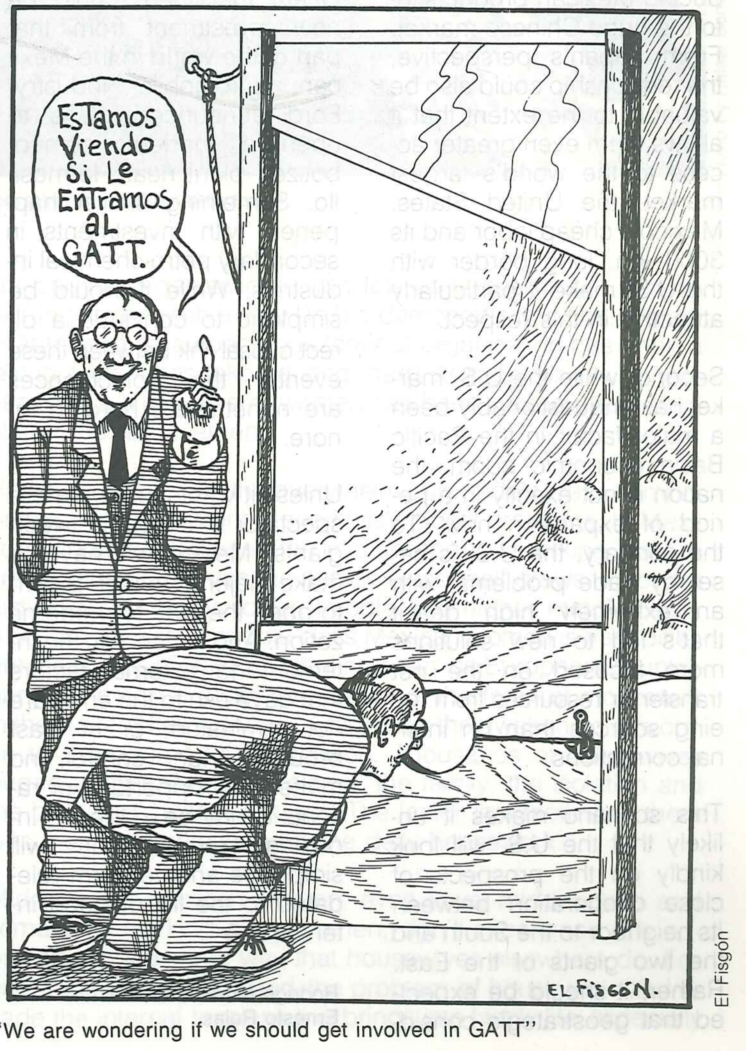
An August 1986 survey carried out by the Private Sector Center for Economic Studies further adds to these clear signs of instability. Reduced demand, scarce credit, uncertainty about the economic future and extreme dependence on foreign sources for new technology are all factors, according to the survey, that make necessary the transformation of the country's productive plant.

As if all that were not enough to make the task a difficult one, the situation is further complicated by problems of unequal development in the productive plant. This means that new technologies can only be absorbed slowly and unevenly. It also will produce predictably traumatic effects on the country's capacity to generate new jobs. And finally, if the catalyst for this whole process is supposed to be new investment, it's not at all unreasonable to ask, just where is the investment supposed to come from.

The state, with its overwhelming foreign debt, an economic policy designed to control inflation and plans to make important cut-backs in its investment programs, can hardly be expected to provide the resources needed to make reconversion work. The private sector, on the other hand, also faces serious problems given the extremely high, prevailing interest rates. In addition, temptations are strong to go after the faster gains of financial speculation or to keep profits in foreign dollar accounts, instead of investing in national production. Given this situation, then, foreign investment is the only possible source for the large amounts of capital required by the reconversion program.

But there are also problems attached to that possible solution, and a whole series of factors make it unlikely that Mexico will soon be flooded with foreign capital. In the first place, the country's political traditions have jealously guarded against all kinds of foreign involvement in national affairs; a rather natural protectionism characterizes some sectors and legal procedures are complicated and confusing. In the second place, the internal market is highly depressed by the severity of the crisis and offers neither guarantee nor incentive for the investor.

In addition, while Mexico-U.S. relations are always quite complex, including geostrategic concerns, there are some very important things



El Fisgón

"We are wondering if we should get involved in GATT" happening right now in that regard with potential implications for reconversion.

First, it is clear from President De la Madrid's recent trip to Japan and China that Mexico is turning to the Pacific Basin as an invaluable ally in its efforts to work its way out of the crisis. It could be an important new source of credit and investment to modernize the nation's productive plant. And there could be important benefits from introducing Mexican products into the huge Chinese market. From Japan's perspective, the relationship could also be valuable to the extent that it allows them even greater access to the world's largest market, the United States. Mexico's cheap labor and its 3000 km. long border with the U.S. make it particularly attractive in this respect.

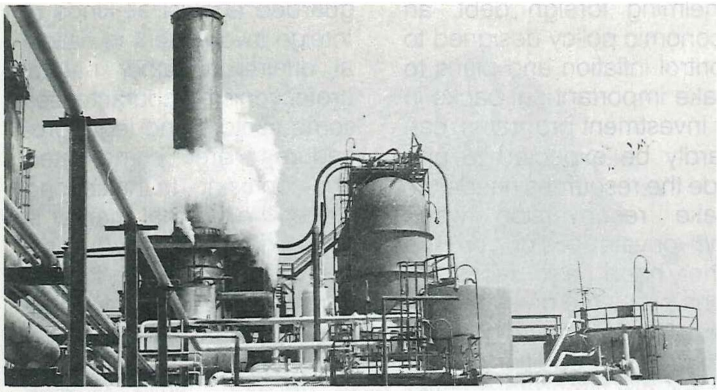


Photo by Archivo Novedades

Industry must leave the city

Second, while the U.S. market has unquestionably been a major factor in the Pacific Basin economic boom, the nation is not exactly in a period of expansion now. To the contrary. the U.S. is beset by trade problems, with an extremely high deficit that's led to new solutions more focused on the net transfer or resources from foreing sources than on internal corrections.

This scenario makes it unlikely that the U.S. will look kindly on the prospects of close cooperation between its neighbor to the South and the two giants of the East. Rather, it should be expected that geostrategic considerations will continue to color U.S.-Mexico bilateral relations and that they may actually heighten sensitivity to such issues as foreign investment. In fact, the U.S. has already begun to set limits around its "priority areas." For example, when Japan showed open interest in making important investments in Mexico in information technology, the U.S. responded by opening an IBM assembly plant in Guadalajara; when there were rumors in the Orient that there could be new investment from that part of the world in the Mexican automobile industry, Ford announced plans to open a modern, semirobotized plant near Hermosillo. Something similar happened with investments in secondary petro-chemical industries. While it would be simplistic to conclude a direct causal link between these events, the coincidences are nonetheless hard to ignore.

Unless it wants to be a mere spectator to a duel between giants, Mexico will have to make major efforts of its own to open the way to modernization. And so long as the internal and external factors that gave rise to the crisis are not eliminated, or at least brought under control, no matter how opportune or rational it may be in theory, industrial reconversion will simply be another term relegated to the list of good intentions. ★

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