CHANGES IN U.S. LEGISLATION: THE CONSEQUENCES FOR MEXICO

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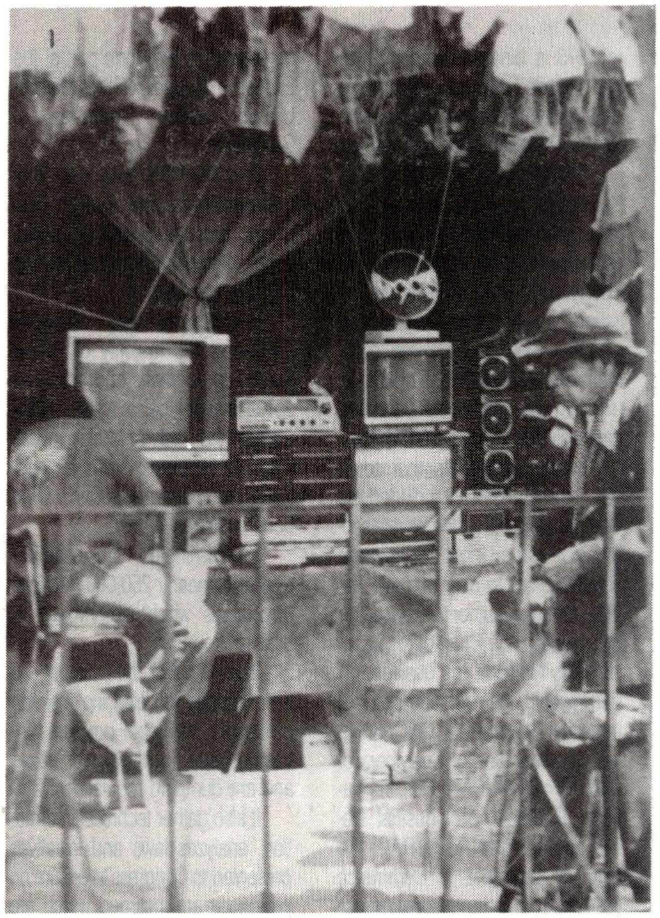
The enormous federal deficit in the United States —166 billion dollars in fiscal year 1987— has forced U.S. government officials to adopt a series of corrective measures to improve the country's economy. While the measures will have an impact on the U.S. domestic economy, they will also effect relations with the United States' largest trading parthers including Mexico.

On the domestic front, the Federal Reserve Board has pushed for higher interest rates in an attempt to keep inflation under control and reduce government spending. The dramatic crash on the New York Stock Exchange last October was the first important effect of the Federal Reserve's policy. In one day the Dow Jones Index dropped 95.46 points, only to be followed by an even sharper fall on October 19, when the Dow Jones plummetted more than 500 points representing some 600 billion dollars --breaking the previous record set on "Black Tuesday" in 1929.

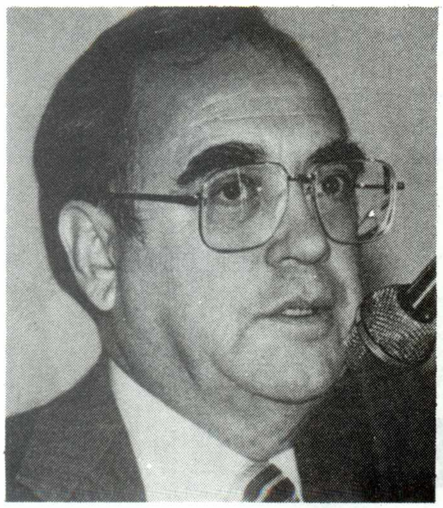
The sustained, albeit modest, growth over the past few years in the U.S. economy has been threatened by the upward pressures on interest rates as the fear of recession returns. Undefined, and at times, contradictory policy decisions have become the natural state of affairs. Thus, while Citibank, Chemical Bank and Marine Midland have reversed the trend of higher interests, the Federal Reserve seems set on cutting the deficit at any cost —even if that means higher interest rates— in order to reduce the dangerous dependence on foreign capital.

Democratic leaders in the Congress have blamed "Reaganomics" and rising interest rates for the instability affecting virtually the entire capitalist world. Lloyd Bentsen, chairman of the Senate Finance Committee, stated "These strategies have been important causes in the decline, especially the administration's failure to recognize the existence of problems that everyone knows about." He added that the stock exchange's drop was also fueled by the "country's persistent trade and budget deficits. Whoever says otherwise is not in touch with reality."[1] In contrast, Treasury Secretary James Baker blamed the Democrats for the Wall Street crash, saying that it was caused by the "panic produced by Democratic Party proposals calling for tax increases." Democratic Congressmen Jim Wright and Dan Rostenkowsky called Baker's comments "absurd and ridiculous."[2]



Contraband goods being sold in Tepito market in Mexico City.
(Photo by José Fuentes)

Professor of economics at the Autonomous National University (UNAM).



Héctor Hernández Cervantes, Minister of Trade and Industrial Development. (Photo from Novedades archive)

U.S. merchandise confiscated by Mexico's Customs Office.(Photo from Novedades archive)

MEXICO-U.S. CHAMBER OF COMMERCE: A HISTORY OF COOPERATION

In 1973 a binational organization was founded with the objective of broadening relations between Mexican and United States businessmen.

The Mexico-U.S. Chamber of Commerce was the brainchild of José Juan de Olloqui, then Mexican ambassador to the United States. De Olloqui's aim was to form an organization which could resolve the difficulties which the Mexican diplomatic corps encountered in promoting trade interests among businessmen in the United States.

This binational chamber could only be successful if it included the direct participation of the private sector since in the United States more credit is given to businessmen that to government authorities. Based on this criterion, the Chamber is sponsored by Mexico's top business organizations: the Confederation of Industrial Chambers (CONCAMIN), the Confederation of Chambers of Commerce (CONCANACO), the National Chamber of Industrial Development (CANACINTRA), the National Chamber of Commerce (CANACO) and the National Association of Importers and Exporters of Mexico. The presidents of these organizations in turn form part of the Executive Council of the Mexico-United States Chamber of Commerce.

The chamber also has U.S. representatives who work in conjunction with the Executive Council. It has offices in Washington, Los Angeles and Mexico.

In Mexico, the chamber represents the majority of United States' corporations and acts as a spokesman for their interests, particularly in the fields of foreign investment tax problems, industrial legislation and "maquiladoras" or in bond assembly plants.

In Washington, the chamber represents nearly 250,000 Mexican corporations which are involved in bilateral trade.

From its outset, the chamber has been involved in defending Mexican producers with legal problems involving taxes, compensation taxes and anti-dumping regulations.

It also gather technical information, analyzes laws and initiatives presented to Congress to ensure no provisions are included which are unfavorable to trade between the countries.

The chamber is active in lobbying on Capitol Hill and often participates in the public hearings in order to ensure that legislators take into account the concerns of Mexican corporations.

Another fundamental task of the binational organization is to promote exports and imports between the two countries. Once or twice a year the chamber holds seminars and conferences to draw businessmen and executives of both countries closer together. Moreover, it offers free advice on the formal requirements which must be met in order to import or export.

Guillermo Ramos Uriarte, general director of the Mexican Coordinating Committee, adds that the chamber is trying to promote investments and joint investments through the buying of foreign debt in the hope that this will create 40,000 to 50,000 new jobs. Businessmen who buy part of Mexico's foreign debt receive a 30 percent discount off the real value.

These "debt swaps" amounted to 2 billion dollars in 1987 in the areas of industry, tourism and "maquiladoras." Ramos Uriarte points out that they have sought to promote growth in the "maquiladora" industry because of the advantage of Mexico's cheap labor which would otherwise swell the ranks of the umemployed. He indicates that the interest in the "maquiladora" industry is reflected in the approximately 1,050 plants throughout the country which employ nearly 300,000 workers, mostly women.

The United States can derive enormous advantages from investing in this sector. In the United States a worker is paid five dollars per hour for the same work, which in Mexico a worker will receive three dollars for eight hours.

Another area of interest for the Mexico-United States Chamber of Commerce is the tourist industry, although to a lesser degree given the greater capital need. The chamber's work in tourism, is restricted almost exclusively to promotion.

Finally Ramos Uriarte stressed the important role the chamber has played in developing commercial relations between the two countries.

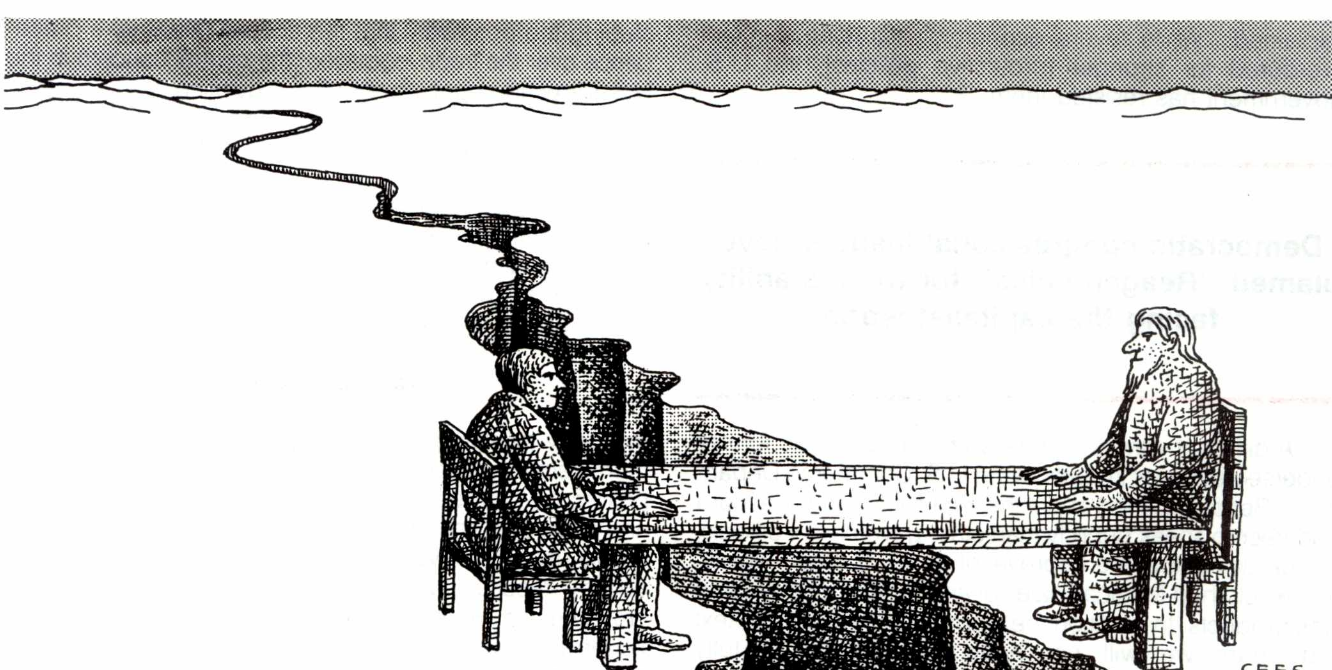
Within this context of mutual accusations, very little has been said about what will be the impact on foreign countries of U.S. measures to balance its trade deficit. The consequences of such measures could have a profound effect on Mexico's economy.

Mexico-U.S. commercial activities totaled some 30 billion dollars at the end of 1987. Sixty-six percent of Mexican imports come from the United States, and 65.2 percent of total Mexican exports are sold there. Nearly 81 percent of Mexico's non-oil exports are sold on the U.S. market.[3] During the first six months of 1987, the exchange of goods and services between the two countries produced a positive balance for Mexico of more than 3.5 billion dollars —ten times more than for the same period in 1986.

Yet the Reagan administration's corrective financial measures —such as higher interest rates— mean additional debt service payments for Mexico to the tune of some 500 million dollars. At the same time, an exchange rate war among strong currencies could provoke an even greater deterioration in the terms of trade by lowering the cost of Mexican export products.

Nonetheless, the Democratic alternative is not very encouraging for Mexico either. A tax increase could well lead to a reduction in consumer spending, opening the way to a recession and therefore, to even greater U.S. protectionism.

It is clear that trade relations between the two countries cannot be divorced from the U.S. corrective economic strategy. This fact underlies the importance of the high-level, bilateral talks which led to the U.S.-Mexico accord on commerce and investment.



Origins of the Accord

The precedent for this new agreement was set by the "Canada-U.S. Free Trade Pact." After a long period of public debates, Canadian Prime Minister Brian Mulroney finally signed what President Reagan termed "a new economic constitution for North America." Canadian reactions were not long in coming, evidence of the high political costs to the Progressive Conservative Party government for having signed the trade pact. New Democratic Party opposition leader Ed Bradbent voiced his "serious fears" concerning the bilateral treaty, which he stated "if consumated, within 25 years will mean the disappearance of the Canadian border... Canada will be absorbed, *de facto*."[4]

In Mexico's case, the discussions leading up to a parallel accord were carried out in strictest secrecy. Information on the talk's progress was available only to a very reduced group of government officials and leaders from the Business Coordinating Council (CCE), Confederation of Chambers of Commerce (CONCANACO) and the Mexican U.S. Chamber of Commerce. Nonetheless, some information has been leaked to the public. It is known that the talks went on for more than a year and were considered difficult, lengthy and arduous. The document, finally signed in November 1987, was called the "Framework of Principles and Consultation Procedures on Commerce and Investment Relations between Mexico and the United States." While it deals with virtually all aspects of the two country's economic relations, it emphasizes trade and U.S. investments.

One of the Mexican negotiators, Minister of Trade and Industrial Development Héctor Hernández C., stated that the bilateral agreement "will mean greater security for exporters and investors and will facilitate" their activities. Major industrial and private trade leaders expressed their support for the accord. Agustín Legorreta, CCE leader, explained that signing the accord represents "a step forward which will help resolve trade problems," while warning that "it will be necessary to continue the struggle against protectionist actions, not only in the United States, but in other industrialized countries as well."[5]

Despite Legorreta's warning againts protectionist measures, CONCANACO's José A. Chapa Salazar was more enthusiastic. Commenting on U.S. protectionism, he

THE LINK BETWEEN DRUGS AND CONTRABAND

It is a common fact that in the United States drug shipments are paid for with goods as a means of "laudering" money generated by the drug trade, according to Alberto Conic, Director of Mexico's Customs Office.

Conic argues that when Mexico decided to enter the General Agreement on Tariffs and Trade (GATT) one of the obligations undertaken was to eliminate import licenses and reduce tariffs. Mexico's compliance with the GATT has meant that there are now countless products which were previously prohibited but which are now easily available in Mexico.

"At present," Conic says, "only 3,500 products require import licenses. Moreover, tariffs are being reduced so that some no longer exceed 20 percent of the value of the article."

As a result of this financial measure, according to the Mexican official, it is now quite common to buy legal goods which have an import license. For example, domestic appliances, televisions, refrigerators, sound systems etc, can be found in some stores and even in Tepito, Mexico City's most important market for contraband goods, known commonly as "fayuca".

Conic outlines some of the changes carried out by the Customs Office to improve trade relations with the United States. Administrative procedures for international trade have been simplified and free advice is offered to users of the 54 customs offices. He claims that this has helped reduce unfair commercial practices, including contraband.

He goes on to say that Mexican customs authorities continuously work to prevent the introduction into Mexico of goods which have not paid duty or which are prohibited.

The Customs Office, through air surveilliance is also responsible for preventing the introduction of illegal goods by planes using clandestine airstrips. Such planes transport products "sent from the United States where they have all the facilities at their disposal and are often a connection for drug traffickers to launder money and pay for drugs with those goods," claims Conic.

Conic stresses that those planes which smuggle goods into Mexico generally return to the United States with drug shipments. U.S. authorities, adds Conic, "should see to it that vehicles do not leave for Mexico with [illegal] shipments because although it is certainly true that our country is adversely affected by the facilities put at the disposal of smugglers, U.S. authorities should worry that this is precisely what promotes drug production and, consequently, damages the health of the most valuable sector of society; children and youth".

Conic concludes with the conviction that if the United States saw to it that goods were not introduced into Mexico, both countries would benefit significantly.

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explained, "While several economic sectors have in fact pressured for stronger [protective policies], the U.S. government has resisted them."[6]

Democratic congressional leaders have blamed "Reaganomics" for the instability facing the capitalist world

A different view is expressed by Gary Holick, former undersecretary for imports at the U.S. Commerce Department. Better informed about the implications of the accord and freer to speak publicly than other government officials, Holick claims that the approval of new U.S. trade legislation would hurt Mexican sales of ammonium, cement and gas products. In addition, he warns that "during the next ten years we will not have a system that fully guarantees access for Mexican products to the United States." He also explained the trade agreement between the two countries could only provide a "theoretical framework for the multilateral negotiations under the General Agreement on Tariffs and Trade (GATT)." Holick's argument is especially interesting since it reveals, in principle, a conflict between U.S. trade legislation and the bilateral accord.

Following the former undersecretary's logic and excluding the possibility that the accord might take precedence over the trade legislation, the central concern in the U.S.-Mexican negotiations is the regulation of U.S. investments in Mexico. Even with the accord in place, trade negotiations would remain subject to the norms established in the GATT.

The accord represents a simple consultative mechanism for controversial trade situations, an effort to improve on traditional negotiating mechanisms used by exporting countries to overcome the obstacles to marketing their goods and services.

Trade Strategies

In a very synthetic form, we can define four most commonly employed strategies for resolving trade conflicts: protest; the mobilization of allies in the United States; threats and retaliation; and technocratic measures. Protest is commonly used by developed countries and often yields excellent results such as the repeal of surcharges. Nonetheless, protests by the less developed countries — especially Latin American nations— have rarely been taken into account. Such countries lack the resources to be able to make the exchange rate concessions that accompany this measure.

The second strategy involves mobilizing "allies" within the United States such as U.S. business interests involved in the controversial deal. In 1970 an attempt was made in the U.S. Congress to amend tax legislation which would have eliminated deductions for conventions held outside the United States. That proposal, which would have seriously affected the economies of Caribbean countries, was withdrawn as the result of pressure from U.S.-based hotel corporations. While the effects of these kinds of actions are difficult to evaluate, in international trade disputes they can often yield better results than foreign policy or bilateral agreements.

The Mexico-U.S. Accord is hardly a panacea, but it represents the beginning of what will likely be difficult and long discussions

Threats and retaliation represent a more radical strategy, similar in certain ways to declaring a moratorium on the debt. Although this strategy generally leads to failure or to responses that harm already weak countries, its extreme nature has occasionally produced positive good results when the implementing government is in a position of strength. One example is the 1969 conflict between Canada and the Mexican government over Mexican textile exports. Canada demanded that they be limited. When Mexico refused, Canada imposed a 50 percent surcharge on them. The Mexican Ministry of Trade and Industrial Development retaliated by denying import permits for goods coming from Canada. This caused general alarm and forced Canadian officals to seek a rapid settlement in order to avoid an even more serious trade war.

The technocratic strategy is the most commonly used in Latin America. It requires a command of the technical details of the business in question, pertinent laws, as well as having influence among intermediate-level officials. This strategy includes contracting a prestigious Washington law firm to head the negotiations with government lawyers from the commerce sector and simultaneously mobilizing groups with related interest. The technocratic strategy has produced the best results. The Mexican and Brazilian governments have used this strategy to prevent or reduce compensatory taxes on products as diverse as steel sheeting, asparagus, and leather handbags and shoes.

The lack of pragmatism in the accord lead us to conclude that these four strategies will continue to be used most often in resolving trade problems. Nonetheless, it is important to have a framework for working out differences which recognizes the two country's unequal levels of development. The accord seeks to establish mechanisms for discussing problems in some of the most conflictive sectors, such as textiles, steel, intellectual property and services. Thus, it is an encouraging sign when compared to the stormy days ahead if new U.S. trade legislation is enacted.

The accord does not establish a free trade zone, despite that having been one of the original objectives. Mexico's Minister of Trade Héctor Hernández was very clear on this issue, "We did not give or receive any preferential trade [arrangements], and in matters related to direct foreign investment, we will strictly follow the legal dispositions stipulated in the Law to Promote Mexican Investment and Regulate Foreign Investment."[7]

During the signing of the agreement, U.S. Ambassador Clayton Yeutter stated "that his country will not close its markets." This, of course, is not the real issue. The real question is what conditions will the United States impose in return for keeping its markets open?

Bernardo Sepúlveda, Mexico's Foreign Minister, commented on the accord: "Our diplomacy during the past five years has devoted exceptional political resources [to the relationship with the United States], and as a result, the political atmosphere and the relationship between the two countries has improved. We aspire to a permanent attitude of cooperation on both sides of the border, based on friendship and on reciprocal respect, [the latter being] an essential element for establishing that friendly relationship."[8]

Under these conditions, the signing of the accord is no panacea; instead it represents the beginning of a conflictive period of discussions. But at least they will be laden with good intentions. It never hurts to talk. □

[1] *Excelsior*, October 20, 1987

[2] *Ibid*.

[3] *Uno más Uno* October 19, 1987

[4] Cited by John Saxe-Fernández, in *Excelsior* October 20 1987

[5] *Uno más Uno*, October 14, 1987

[6] *Ibid*.

[7] *Excelsior*, November 7 1987

[8] *Uno más Uno*, October 15, 1987