12-6-1995

Mexico Enjoying Huge Trade Surplus This Year; Lack of Productivity a Concern

LADB Staff

LADB Article Id: 55851
ISSN: 1054-8890

Mexico Enjoying Huge Trade Surplus This Year; Lack of Productivity a Concern

by LADB Staff
Category/Department: Mexico
Published: 1995-12-06

According to preliminary statistics released by the Finance Secretariat (SHCP) in late November, Mexico's trade surplus for January-October reached US$6.23 billion, a significant reversal from the trade deficit of more than US$15 billion reported in the same 10-month period in 1994. The SHCP attributed the wide trade surplus in January- October to an increase of 33.5% in exports and a decline of 7.6% in imports, relative to a year ago. Exports for January- October were reported at more than US$66 billion, while imports for the same period amounted to US$59.8 billion. For October alone, Mexico attained a trade surplus of US$830 million, led by an unprecedented US$7.54 million in exports. Imports in October totaled US$6.7 billion, a decline of 6.7% from October of last year. The surge in exports, which according to conservative estimates will surpass US$77 billion this year, has been one of the few bright spots in Mexico's economic performance.

The seemingly favorable trade statistics, however, appeared to mask a number of fundamental problems with the Mexican economy, such as relatively high inflation, a surge in unemployment, and negative GDP growth. One especially sharp criticism came from the country's largest export-import association (Asociacion de Importadores y Exportadores de la Republica Mexicana, ANIERM), which said President Ernesto Zedillo's administration was placing too much emphasis on the widening of the trade surplus and not enough attention on other areas of the economy. According to ANIERM, the surge in exports was more a function of the devaluation of the peso than an increase in Mexico's manufacturing capacity.

Still, the Zedillo administration has taken great pains to present a coherent economic policy, including some changes in its stance on foreign trade. The strongest spokesman for the administration in this regard has been Trade Secretary Herminio Blanco, who addressed the issue at several foreign trade forums in Mexico City during November and December. One proposal unveiled by Blanco to business executives was a plan by the Zedillo administration to boost the domestic content of products manufactured in Mexico. Blanco said the plan requires industry chambers, retailers, banks, and the government to enter into a formal pact to substitute some of the foreign content of manufactured products with Mexican-made counterparts. A key element of the plan is to create mechanisms to finance production and purchase of domestic products.

A large portion of the financing will be provided by government lenders, including small-business lender Nacional Financiera (NAFINSA), the domestic development bank (Banco Nacional de Comercio Interior, BNCI), and the foreign trade bank (Banco Nacional de Comercio Exterior, Bancomext). Commercial banks will also be encouraged to participate. To this end, the administration has announced plans to use a special fund managed by the Banco de Mexico (central bank), which would provide guarantees to back up the loans provided by commercial banks and other financial institutions. As a first step, the Trade Secretariat (Secofi) has begun a series of

LADB Article Id: 55851
ISSN: 1054-8890

meetings with 6,000 business executives to determine which of the products that they import can be substituted with a Mexican product.

Preliminary statistics released by the Trade Secretariat (Secofi) show that an "import substitution" scheme could result in potential annual sales of at least US$10 billion for Mexican manufacturers. According to Blanco, Mexico's imports in recent years have averaged more than US$40 billion. "We won't be able to substitute for all those imports," said Blanco. "But imagine the extent by which we could expand our productive capacity and employment if we succeeded in substituting for US$15 million or US$20 million."

In a meeting with Blanco, business leaders said they were willing to consider the government's proposal, but expressed reluctance to fully embrace the concept. For example, Carlos Abascal, president of the employers confederation (Confederacion Patronal de Mexico, Coparmex), expressed concern that the government would return to a "managed economy" model. "We have to avoid the mistakes of a model that failed in previous years," said Abascal. The import substitution model is a concept that was promoted by a number of past administrations, but was abandoned by former president Carlos Salinas de Gortari during negotiations on the North American Free Trade Agreement (NAFTA). According to columnist Fausto Fernandez Ponte of El Financiero International weekly business newspaper, the import substitution model was promoted heavily by Antonio Ortiz Mena, the former director of the Banco de Mexico (central bank).

Ortiz Mena, who also once headed the Inter-American Development Bank (IDB), has suggested that any economic model followed by Mexico should first and foremost strengthen the nation's productive capacity. Another important element of this philosophy is that Mexico must reduce its dependency on other countries for productive inputs and consumer goods. "The social cost of the neoliberal model is epitomized by the economic paralysis brought on by NAFTA...which swept away with the force of a hurricane the medium, small, and microindustries that were the backbone of our economy," said Fernandez. "These were the source of all potential development, and therefore, growth."

Still, although Fernandez points out that members of the Zedillo administration are attempting to incorporate some of the philosophy of the previous import substitution model, he emphasizes that the program would in no way abandon Salinas's basic neoliberal policies. Indeed, the new import substitution scheme being promoted by the Zedillo administration is fundamentally different from the previous model. In the past, the government intervened to protect domestic producers against foreign competitors through high tariff structures and other means. Moreover, such policies were aimed at building up production for a domestic market, rather than for export.

In sharp contrast, the goal of the Zedillo-proposed scheme is to provide "incentives" rather than "protection" for local producers to allow them to better compete with foreign imports. And, the final products would not be primarily for sale on the domestic market as under past import substitution models, but would rather be for export. Thus, the scheme appears to be fundamentally aimed at helping domestic businesses and investors to take greater advantage of the opportunities created by NAFTA. It is not aimed at rolling back the market reforms implicit in the free-trade accord.

LADB Article Id: 55851
ISSN: 1054-8890

For example, in an interview with the daily newspaper La Jornada, Blanco did admit that some significant changes were needed in Mexico's economic and trade policies.

However, Blanco denied that the Zedillo administration was abandoning the free-trade principles of NAFTA. "What we are saying is that Mexican companies have the potential to provide a greater proportion of the products that are now being imported," said Blanco, who was the main NAFTA negotiator under the Salinas administration. A major element of the new import substitution policy involves a plan to encourage the maquiladora sector to acquire a greater percentage of the parts used for the final product from Mexican suppliers. According to Secofi statistics, in recent years, Mexican companies have supplied only about 2% of the components used in assembly or manufacture of the finished product at the roughly 3,000 maquiladora plants in Mexico.

In a recent interview, deputy trade secretary Decio de Maria Serrano said the Zedillo administration would like to increase that ratio to 10% by 1996 or 1997. He cited Secofi statistics, which showed that imports by the maquiladora sector as a whole have increased by an average annual rate of 25% in recent years. The statistics showed that imports by maquiladora plants from suppliers in the US, Taiwan, Japan, and other countries totaled US$19 billion in January-September of this year. This means that imports by maquiladora factories for all of 1995 will almost certainly surpass the US $20 billion recorded in 1994. De Maria said the Zedillo administration's attempt to create a strong network of Mexican suppliers for maquiladora plants over the next two years is partly an effort to enhance the competitive position of Mexican manufacturers for further opening under NAFTA.

Under the NAFTA timetable, the rules that allow maquiladora plants to import parts and raw materials duty free as long as the final product is exported- -will be eliminated by the year 2001. US and Canadian manufacturers will be able to move their products freely into Mexico. However, supplies imported from outside the NAFTA region will become subject to duties, which will force the growing number of maquiladoras from Taiwan and Japan to find suppliers in Mexico, the US, or Canada.

Some maquiladora plant managers suggest that their parent companies will also have to contribute to the effort of creating a source of reliable suppliers in Mexico. "We may have to look for suppliers in our region and invest in them," said Ken Henehan, an executive with Industrias Mexicanas de Fotocopiadoras, a Kodak subsidiary in Tijuana. Henehen told El Financiero International weekly business newspaper that companies such as Kodak, Sanyo, and Sony which have operations in Baja California will have to begin programs to provide potential suppliers, especially small and microbusinesses, with financial, accounting and engineering support in order to create a network of suppliers within the state. (Sources: Inter Press Service, 10/25/95; La Jornada, 10/25/95, 10/27/95, 11/15/95, 11/20/95, 11/21/95; Agence France-Presse, 11/20/95, 11/28/95; Notimex, Reuter, 11/22/95; Excelsior, 11/04/95, 11/16/95, 11/20/95, 11/23/95; El Financiero International, 11/06/95, 11/27/95; Reforma, 11/20/95, 12/05/95)

-- End --