Resumen

Los motivos principales de los Estados Unidos para el convenio de Libre Tratado con México son: 1) el deseo de mejorar sus relaciones para acrecentar sus inversiones en México y 2) el deseo de tener acceso a los materiales crudos, principalmente petróleo. Debido a que pocos consumidores mexicanos tienen ingresos equivalentes a los de la clase media de Estados Unidos, poco se puede esperar de una apertura mayor del mercado mexicano a las exportaciones de Estados Unidos, más allá de lo que se logró en 1986, cuando México se unió a la GATT.

Acerca de los prospectos de nuevas inversiones de Estados Unidos con México, una vez que los costos sociales (tales como el daño del medio ambiente) y los riesgos corporativos que están cargados al costo de la mano de obra son altos, no le darían a las firmas manufactureras de Estados Unidos ninguna ventaja competitiva en relación con las importaciones europeas y japonesas. El salario por hora no debe de exceder de $15.00. Una falla en la graduación de la estructura de la frontera significaría que Texas y otros estados de la frontera continuarían recogiendo los impuestos de los estados de cuenta de las compañías regidas por el Rust Belt and Far East.

Una nueva inversión de $20 millones de dólares (exclusivamente de costos administrativos) en la estructura social y económica se necesitarían para reestructurar de manera que la mano de obra mexicana en la frontera sea competitiva.

*George Baker is a Visiting Scholar, UCLA Program on Mexico.
Introduction:

There are three reasons to believe that a Free Trade agreement (FTA) with Mexico would be good for the United States; one of these reasons is not that Mexican labor is cheap and that its use by American manufacturers will increase their competitiveness in the U.S. market. There are four reasons why a Free Trade Agreement with the United States would be good for Mexico; but one of these reasons is not that it would raise Mexican salaries and thereby create a market for American exports.

An FTA with Mexico (or better, with Canada and Mexico) provides the United States a symbolic counterpart to the European Economic Community, and, in tangible ways, helps strengthen the bargaining position of U.S. trade officials seeking international agreements. Second, an FTA, by strengthening the position of the dominant political movement in Mexico (the PRI), helps solidify the governmental base that has provided security and continuity to U.S.-Mexican relations since 1929. Finally, an FTA with the United States will likely prove advantageous to U.S. firms already established in Mexico who sell to the Mexican market: U.S. investors in industries such as pharmaceuticals and petrochemicals will likely benefit as negotiators settle some long-pending points of controversy such as intellectual property rights and national treatment (which limits foreign equity to minority positions). Such benefits will to a large extent be taken as the de facto repeal of the Foreign Investment Act of 1973.

For Mexico, an FTA with the United States provides four advantages: one concerns the cost and availability of money. An FTA with the United States can be expected to be a credible metaphor for credit- and market-worthiness in the eyes of foreign bankers and prospective investors. As for the availability of money, the closest source is the estimated $50-80 billion dollars of Mexican assets held abroad. An FTA with the United States would doubtless stimulate the repatriation of a good portion of these funds.

An FTA with the United States also invites a new rhetoric for the State, one that looks toward the future, not toward the past,
not toward the Oil Expropriation in 1938, and much less toward the Revolution of 1917. The third metaphor is policy continuity: Mexico will never attract adequate investment capital so long as it is perceived as a country whose president is free, without consulting anyone, to nationalize the private banking system from one day to the next (as was the case in 1982). A Free Trade Agreement with the United States is an ideally suited instrument for tying the hands of future presidents of Mexico. Finally, an FTA with the United States strengthens the political legitimacy of the negotiator. He who negotiates an FTA with the United States will be regarded as having impeccable political credentials, a definite plus in the present case of someone whose coming to power in 1988 was marred by controversy.

What is the U.S. burdened cost of Mexican labor?

What, then, of the assumption by the Bush Administration that Mexican labor is cheap, at least by American standards? We shall argue that this assumption holds true only so far as it concerns the nominal wages paid to the worker, but that once other labor-related charges and costs are added, Mexican labor is not cheap. These charges fall into two categories: those borne by the firm and those borne by society (the latter termed social costs by economists).

Examples of social costs include the full range of public services, from criminal justice administration to education and public health, street lighting, public parks, libraries and border crossings. In the case of Mexican labor, social costs occur on both sides of the border that are not paid for by firms operating in Mexico. The general observation is that owing to the lack of adequate infrastructure investments on the Mexican side (owing, in turn, to factors to be discussed shortly), social costs arise on both the Mexican and U.S. sides of the border. The two best examples are the deterioration of air quality (and standards of living more generally speaking) in El Paso, Texas, and the tercermundización (Third-Worlding) of the border counties in South Texas. An article in the New York Times (of March 31, 1991) reported on the high incidence of diseases like hepatitis and cholera, the cause of which was associated with polluted water and untreated waste coming from Mexico. Such costs on the U.S. side, which vary with the intensity
of manufacturing employment on the adjacent border, must be scaled to the number of hours worked on the Mexican side in order to arrive at an estimate of U.S. society’s cost per hour.

There is a political dimension of the process of tercercmundización: As soon as a region comes under the effective control of Anáhuac (as the pre-Hispanic empire centered in Mexico City was called), two things happen: One is the appearance of, or an increase in, conformism in the public media, with the result that public debate on policy issues becomes muted. The second change is a shift in the composition of the community tax base from one largely made up of middle-income, consistent tax-payers to one made up of low-income, prospective tax-payers. Some observers believe that, by these two measures, South Texas, West Texas, Doña Ana County (in New Mexico) and San Diego County have already fallen under the spell of Anáhuac.1

A similar argument may be made on the Mexican side: the lack of infrastructure investments causes variable social costs associated with employment, especially in the case of employment in export-processing plants called maquiladoras.

What is the cost of repairing the infrastructure deficit on the U.S.-Mexican border? The deficit covers three areas, environmental issues, public services and investments in social welfare (such as public housing).

Environmental issues.

In 1983 a U.S. Embassy study estimated that a budget of $6 billion U.S. dollars (USD) was needed to deal with environmental issues on the two sides of the border. If it took $6 billion in 1983 it would take roughly $10 billion in 1991. In the absence of studies to quantify the cost of up-grading Mexican border public services and investments to U.S. standards, we may take the figure of $10 billion as a proxy value. Our estimate, then, for the cost of a border infrastructure package is $20 billion dollars.2

What if, to the hourly wage of the maquiladora workers, a surcharge to cover the infrastructure deficit were to be applied? To cover $20 billion USD, the wages of the half-million maquiladora workers, who put in 2,000 hours/year, a surcharge for social costs alone would be $20/hr if paid in one year. Spread out over time,
this surcharge would only be about $5.25/hr if paid over 5 years (at 10% annual interest with no growth in the work force).

The funding of border infrastructure (mainly, but not solely, on the Mexican side) is not settled with a dollar commitment by Mexico City and Washington. Another serious problem is the high overhead costs in public works administration in Mexico. By one assessment, only sixty cents on the dollar of a public works budget in Mexico reaches the ground—the rest is eroded by overhead and underhand. How to put U.S. tax dollars into northern Mexico’s infrastructure account with guarantees that the money will be spent in the north for agreed-upon projects and agendas? In the past, when maquiladora operators have offered to contribute funds for infrastructure on the condition of their being represented on the advisory board that would oversee their disbursement, they have been rebuffed. The Mexican government has rejected such offers alleging foreign interference in the internal fiscal administration of Mexico. Maybe so, but it would be unacceptable for U.S. federal and state tax monies to be committed to infrastructure development in northern Mexico without U.S. standards of cost accountability. The matter of funding border infrastructure, therefore, becomes two problems, not one: fiscal (and project) administration as well as fiscal budgeting.

A fair question is, Why is there such an infrastructure deficit on the border? There is a distinct answer for both the Mexican and U.S. sides. On the Mexican side the blame can be placed on two or three related causes: in the first place, the fiscal centralism of the Mexican State means that all taxing authority exists at the federal level (the states have no taxing authority). Such an arrangement in itself is not necessarily bad were the states to have an equal voice in the distribution of the federal budget for regional infrastructure; but, as the governor of the State of Baja California emphasizes, for every $1.00 of tax revenue sent to Mexico City, only 30-40 cents is returned for infrastructure and public services.

On the U.S. side of the border an analogous centralism exists at both the state and federal levels: in Texas, the legislature and governor’s office in centrally located Austin systematically have under-funded public services in the peripheral southern and western counties that lie adjacent to the Mexican border. (The situation in
Santa Fé, Tucson and Sacramento is not much better than that in Texas: officials in those state capitals hum a tune on their way to work about how things on the border are getting better and better day by day.) Meanwhile, at the federal level, there is no official or agency that has either administrative or taxing authority for border infrastructure.

There is another reason why there is an infrastructure shortage on the border: the export assembly plants in Tijuana and Ciudad Juárez and elsewhere in Mexico are cost centers for their parent firms and therefore pay no real taxes on profits from operations in Mexico. (To satisfy the letter, but not the spirit, of Mexican law requiring profit-sharing with workers, the plants do report fictitious razor-thin profits, a portion of which is then distributed to workers.)

These plants consume infrastructure, but do not replace it with taxes scaled to the success of their operations in the marketplace. The Mexican State (which, on a bad day, invented this permanent tax holiday in the mid-1960s) is thereby deprived of tax revenue from the North of Mexico that could be used to replace and augment strained infrastructure and public services. On the U.S. side of the border, the parent plants of maquiladoras located across from Texas are mostly from the Rust Belt, hence do not pay taxes in Texas. On neither side of the border, therefore, do the firms that operate in Mexico serve to strengthen the border region’s infrastructure.

The predictable result is that there are serious infrastructure bottlenecks in water, sewage, public housing, transportation, education, street paving and lighting, and health, recreational and child-care services. These bottlenecks come to have an effect on the burdened cost of labor in northern Mexico. One expression of these bottlenecks appears in the plants as worker turnover, the rate of which varies from 3-20%/month. It is commonly reported that, owing to shortages in public transportation, plant workers often take two or three public busses to get to work. Company loyalty counts for little when a worker is offered a job that requires only one bus change instead of two.

One maquiladora plant in Chihuahua City, which has a low 3%/month personnel turn-over, estimates that each turn-over costs
the plant a million pesos ($333) in recruitment and training expenses. This plant employs 2,200 floor operators, 36% of whom are replaced annually at a total cost of $264,000, an amount that would pay the salaries of 100 public school teachers for twelve months. Another way of expressing the turn-over rate is this: the total cost of labor/position is 36% above the wage rate paid to the individual worker.

Another category of expense above the nominal wage consists in the loss of flexibility and time in the red tape and expense (including mandatory severance pay) associated with terminating a worker.

The Chihuahua plant provides other examples of costs not advertised in the nominal wage rate of about $1.00/hour: the company pays the city for bus service for several dozen buses that take the floor operators (mostly young women between 18-24 years of age) to and from work. The company has a rule that requires that workers be left off the bus no further from their homes than three blocks; it is not required, however, that the road to the worker’s home be paved, or that water, electricity or sewage be installed. The company also provides an all-you-can-eat cafeteria at a nominal charge as well as a first-class medical facility staffed by full-time physicians. The plant, the business of which is to assemble electronics products, boasts of an operating table as well as dental services for the workers.

Another dimension of hidden costs borne by the plant is in the area of what Mexicans call cost non-transparency. In Minneapolis a manufacturer finds one of the best infrastructure environments in the world at a high, but transparent, cost. Management may not like the high costs of labor and services, but at least the costs are known and predictable. If the plant is moved to Cd. Juárez, not only is the manufacturing infrastructure a tenth of that of Minneapolis, but the costs associated with any category of expense become non-transparent. Anyone who has lived or worked in Mexico knows of the high, unpredictable costs of obtaining permits, costs that are paid for either by lost time, attorney fees or under-the-table agreements. As one Mexico City restaurant manager puts it, “All cost categories are black holes, all cost budgets are porous.”
The telephone system in Mexico is another source of hidden costs: in 1991 the country had barely started to install digital telephone equipment, and the service and expense of existing rotary-type equipment is generally regarded as awful by business and residential customers. An American journalist stationed in Mexico City believes that in his case four hours a day are spent trying to complete telephone calls. A publishing firm in Monterrey that had an on-line database serving customers throughout Mexico and abroad cancelled the service in 1990 on the grounds that there was too much interference on the telephone lines for their customers to get adequate service. Meanwhile, as for public telephones on the streets, only one in four is in operating order (many are out of order because the coin box is full).3

The inefficiencies of the mail system in Mexico add unexpected costs of doing business. As one Tijuana businessman expressed it, “If you’re not downtown, don’t expect your mail to arrive with any regularity or guarantee of delivery. Perhaps for this reason we Mexicans often will not bother to reply to correspondence received from the United States: in the first place, if the matter were really important, we would hear about it on a personal visit, or at least by telephone; in the second place, we have low expectations that a letter from us would be delivered in a timely fashion to the person to whom it is addressed. If there is any area of Mexican life where the American stereotype of Mexico as ‘mañana-land’ still is valid it’s the mail."4

The judicial system in Mexico is another source of misplaced expectations: it is a world modeled after the Napoleonic Code in which individual judges, not juries, decide on guilt or innocence, right or wrong. It is a labyrinth of uncertainty fueled by delays and rumors of pay-offs and rumors of arbitrary intervention by non-judicial government officials.

Uncertainty exists, not only in regard to how certain institutions operate, it exists more broadly. Take government contracts. On the one hand, there is the external appearance of a level playing field between all business players legally on the field;5 on the other hand, there is the strong intuitive impression that, if put into words, would say that “there is no commercial transaction in Mexico that takes place between arms-length individuals or
corporations. This doubt, which is always in orbit around decisions of the federal government, undermines the moral of the international manager.\textsuperscript{6}

Such differences of infrastructure and civic and corporate culture may be grouped together under the heading of culture shock, an underestimated dimension of doing business in Mexico. On his way to a luncheon appointment in Mexico, a non-smoking manager from the United States may observe with dismay that Marlboro cigarette advertisements have no health warnings at all—besides the brand name there’s only just the same old burnt-out cowboy chasing his tail. Arriving at the restaurant, the north-American may easily find himself at a small table for lunch with two or three smokers with cigarettes burning; he does not want to be a co-dependent, nor does he want to be rude.

U.S. managers in Mexico have to become accustomed, for example, to the Mexican Silent Treatment.\textsuperscript{7} In mid-February of 1991 a research team from the U.S. government came to Mexico to study the effect on U.S. investors of the partial deregulation of the state petrochemical sector. Arriving in Mexico City for a two-week visit, the team was advised that its previously scheduled meetings with Pemex, the State Petrochemical Commission, the Chemical Manufacturers’ Association and Mexican private companies all had been cancelled. None of the principals from these offices would return telephone calls or re-schedule the meetings.

American businessmen may think that going to Mexico is simply a matter of finding their Mexican counterparts and working out deals in which the numbers make sense. Unfortunately, there are no such Mexicans, for all such persons are businessmen-politicians first, businessmen second. Mexican business people have alliances, favors, and special understandings of all sorts with the mayor, the governor, the minister in Mexico City (perhaps even with the President of Mexico himself) as well as with officials in Pemex and various labor and employer organizations. Show a Mexican business person the numbers of a new business venture and he will think first of his political obligations and only afterward of markets and profits. A case in point is the unwritten agreement by a prestigious newspaper in one of Mexico’s northern states not to distribute copies of the paper in metropolitan Mexico City, where
one in four Mexicans live. Were Ted Turner to propose a joint venture with the owner-publisher of this newspaper for a new, growth market in Mexico City, he would find an incomprehensible lack of interest—no matter what the sales forecasts might be. The logic of doing business in Mexico, then, is not the same logic as that which is practiced in the United States, a difference that companies will face in losses of managerial efficiency as well as in manager turn-over.

Another source of culture shock deals with the absence of a business press in Mexico. The press reports on macro-economic news—inflation, trade, national product, and interest rates. Leaving aside the stock market, however, virtually no micro-economic news of any sort is reported in any public media. While the U.S. press reported in April 1991 the lower gross margins being experienced by Apple Computer, Inc. (to 40-45%), in Mexico not only are gross margins not reported but neither are annual sales figures—or any other data of the sort that U.S. managers normally read in the morning newspaper. The conscious realization that the press is the public relations arm of the State is usually slow to come, but when it does it is accompanied by cynicism, a form of depression. As one U.S. manager put it, “In a Mexican newspaper, the best business news that I can hope to read is that the head of my trade organization might have inadvertently said something interesting in a press conference.”

Also slow in coming is the realization on the part of Mexican managers that a U.S. business press exists at all: one Mexican manager with ten years in the United States observed, in frustration, “The U.S. public knows more about Exxon, a private company, than the Mexican public knows about Pemex, a public company.”

Cost accountants deal with the sum of projected infrastructure bottlenecks and break-downs, cost non-transparencies, administrative flexibility losses and culture shock under the general category of risk. The cost of risk is applied to the cost of goods sold in such a way that the consumer ultimately pays for it. The cost is incurred either as an insurance premium or, more typically, as payments to a self-insurance fund. The risk cost of operating in Mexico in an under-funded infrastructure environment must be understood as a surcharge (or burden) on the nominal
hourly wage rate. Since the cost of risk must be applied to the total cost of goods sold, the cost of risk scaled to labor costs is high.

Ordinarily, for a product to be a worthwhile candidate for assembly in Mexico there must be a ratio of 3-5 hours of direct labor for every $100 of materials. Let’s imagine a product with $100 of components and four hours of direct labor billed at $4.50/hr. (This effective wage rate is estimated at $1.50/hr, including benefits, for the worker, plus a 200% charge for factory indirect expense and supervision.) Four hours at $4.50/hr is $18, which, added to the materials cost (plus 10% to cover two-way shipping and customs) is $128/unit crossing the border back into the United States. On the U.S. side, meanwhile, there are other associated costs (relating to procurement, corporate overhead and the amortization of investments in product engineering, plant and equipment) estimated at 10% of Mexico-side costs. The total unit cost, ex risk, is $128 plus 10%, or $140.80.

A risk cost of 10% applied to the cost of goods sold would come to $14.08, and the total, risked cost of the product would be $154.88. Note that the cost of risk ($14.08) for the unit is over nine times the direct hourly labor cost ($1.50), and nearly 80% of the value of the burdened price of labor. If direct labor is $18.00 and risk is $14.08, then the total cost, ex social costs, associated with the use of that labor is the sum of these two categories, or $32.08. This amount, scaled to the hours worked/unit (four), is $8.02/hour.

If social costs are in the area of $5.25/hr, the total hourly cost of Mexican labor at the 10% risk rate is $13.27. A risk cost of 20% pushes the effective cost of labor up to $11.54/hr, ex social costs. Adding the estimate for social costs ($5.25/hr), the total risked and socially funded cost of Mexican labor comes to a shadow cost of $16.79. A cost of $16.79/hr is roughly equal to the price of labor in Minneapolis exclusive of risk corporate overhead, and social costs. As for risk, in round numbers it is zero. Corporate overhead might be 100%, for a total effective corporate cost $33.58/hr. What about social costs? Since most of the these are sunk costs, let’s take the value of costs such as added the extra unemployment insurance expense and increased cost of criminal justice administration, both associated with previous plant closings, as 10% of the total corporate cost, or $6.72/hr. The total cost of
Minneapolis labor, then is $40.30/hr, including direct wages, corporate overhead and risk, and social costs.

With a direct wage of $1.50, an overhead cost of $3.00, and a social cost of $5.25, the total labor cost would seem to be a mere $13.27/hr, ex corporate risk. It is unimaginable that the risk cost could ever be put at $27.04/hr, a price that would make it a penny higher than that of Minneapolis.

An explanation for the difference between these two burdened hourly wage costs, $16.79 for Mexico and $30.30 for Minneapolis, lies in two considerations: (a) the standard of living of the workers, and (b) the nature and degree of political responsibility demanded of the worker. What does society buy when it invests infrastructure to the extent that it will support a $16.79/hr job? It buys his privilege of contributing a third of that amount to taxes, a source, were one to dig deeply, of dignity, since paying taxes implies a personal responsibility to the social and material order. (Mexican maquiladora floor workers, in contrast, pay no taxes on income.)

Society also buys a potentially informed electorate. In Mexico, an average newspaper costs $1,000 pesos, 6.7% of a day’s wage (at $15,000 pesos/day); converted to Minneapolis-equivalent terms, a newspaper would cost 6.7% of an eight-hour day at $16.79, or $9.00. Were newspapers to cost $9.00 or its equivalent, blue collar readership would disappear—as is the case in Mexico. At $16.79/hr a corporation buys, therefore, a worker that believes that he has the available time and disposable income to keep himself informed on local, state and national politics and issues. A U.S. company going to Mexico will categorically not be hiring this type of worker, at least not for minimum-wage jobs.

This line of reasoning makes us question assumptions underlying our estimate of the social costs in Mexico associated with the use of Mexican labor. Our estimate of $5.25/hr for “social costs” assumed what standard of living? The U.S. standard? Surely not. At $5.25/hr, it would take a half-million maquiladora employees putting in 2,000 hours a year ten years just to approximate the University of Texas system—all the while ignoring all other dimensions of infrastructure.
The difference in wages corresponds to differences in the expected values of (a) material and social well-being, and (b) informed political views and electoral participation. The economic history of the United States and of other industrial countries in the twentieth century suggests that private companies have prospered when the standard of living and political responsibility of their workers was high.

The matter of wanting low wages in Mexico, then, corresponds to a shift in (some would call it a betrayal of) basic values: No longer will U.S. companies understand their implicit social and political roles in Jeffersonian terms. But can American companies really work, be internationally competitive over the long-term, in an anti-egalitarian, anti-democratic environment? Can the American political society work if workers fall, through loss of income, below the level at which being informed politically is affordable?

**Will salaries rise in Mexico?**

The Bush Administration has argued that with an FTA Mexican salaries would rise, thereby creating a market for U.S. goods and services. Given that model income (as distinct from mean income) has fallen 60% in Mexico since 1981, any improvement in Mexican wages would be welcome, but there is little reason to believe that the State would index wages to trade gains. Wage rates for the majority of Mexicans are controlled by the State through the mechanism of the minimum salary (about $4/day in 1990). Very few American goods and services will be bought by a wage earner taking home $4/day; not only is this wage insufficient to buy American goods, it is not enough to buy Mexican ones. As the El Paso-based industry organ, *Twin Plant News*, put it in the May 1990 story on worker compensation, “The cost of a basket of products and services considered the absolute minimum required to allow a blue-collar worker to subsist is considerably more than the average maquila operator can afford.” The average Juárez worker, said the report, earned only enough to cover 54% of the cost of the minimum basket.

To capture the current potential market for American exports represented by Mexico, two adjustments have to be made to the
rosy, but unrealistic, figure brandished by the Bush Administration: to adjust for real purchasing power, Mexican population statistics must be substantially deflated, from 85 million to about 20 million. Even the figure of twenty million is not trust-worthy. We have to ask a question that, at first, seems strange: What is an American product (for export)? Except for the simplest consumer item, like tableware, an American product is not just a thing, it is a social network of related business services. An American product requires delivery, installation, training, warranty service and on-going customer service. The potential export market in Mexico for American products requiring the in-place operation of this service network is thus doubly limited.

The question is often asked, If there are so many hidden costs of Mexican labor, why have 1,800 maquiladora companies gone to Mexico to hire a half-million workers? There are various answers to this question: the first answer is that the companies, for not paying taxes either in northern Mexico or in the U.S. border counties, are not paying for all of the costs of operating on the border. They benefit, as economists say, from a market imperfection. A second general reason is that companies do not operate in Mexico with an adequate cost accounting model of their total costs, including opportunity costs. As Mexican accounting conventions do not recognize payments to a self-insurance fund for risk as a deductible business expense, foreign companies ignore this category of expense, and operate as if Mexico were a Minneapolis-like, risk-free operating environment, which it certainly is not. The maquiladora companies act as if their manufacturing costs are lower than they are in fact.

Nor do the companies estimate the opportunity cost of operating an export assembly plant in northern Mexico. The Bush Administration wants to encourage American companies to be more competitive in relation to Europe and Japan, but does so using a reductionistic argument. The best way for a firm to be more competitive is to have a better product. In First World markets, having the same-quality product at a lower price is a firm’s second-best choice. Next to having a better product, a company can have better customer service, better advertising, R&D, training, technology and materials, better sales people—even better financing.
At the end of a long list of possibilities to improve corporate competitiveness is the option to lower labor costs. The opportunity cost of ignoring the more reliable, if long-term, methods of enhancing competitiveness is high: for every man-year put into lowering labor costs in Mexico (or elsewhere) is at the expense of devoting a man-year into any of the other, less risky categories listed above.

What is the Mexican burdened cost of Mexican FTA labor?

So far our discussion has been limited to why the cost of Mexican manufacturing labor is not cheap from an American perspective, taking into account both corporate costs as well as social costs. We shall turn briefly to a consideration of why Mexican labor in the North is not cheap from (northern) Mexico’s perspective.

As discussed, northern Mexico operates under a fiscal and political framework in which Mexico City sets the rules of investment, taxation and infrastructure budgeting. The North has little say in any of these matters. In consequence, given the Center’s disdain for the outlying provinces, infrastructure budgets allocated for the northern states lag behind the creation of employment by five to ten years. In some areas of infrastructure, environmental protection, for instance, the lag is even longer. The North has no say in the budget to be given to fund the staff for the border operations of Mexican EPA (known by its acronym Sedue). The hope that Sedue’s budget for U.S.-impacting environmental issues will increase as Mexico becomes more prosperous does not square with the chronic raw deal that the North has received from the Center.

Every new manufacturing job that comes with unfunded or under-funded infrastructure lowers the standard of living of the community, as more plants and families draw upon the same, already strained infrastructure. The result is that new employment makes the existing plants, Mexican and foreign, less competitive: these firms will now have to compete for qualified personnel as well as share infrastructure and public services with the new-comers.
There is also an opportunity cost incurred by the North connected with the Bush-Salinas proposal for a Free Trade Agreement: it is the cost associated with an external solution to overcoming the historic inertia that has impeded Mexican producers from aggressively approaching the U.S. market. With the exception of winter vegetable growers from the State of Sinaloa and a few beer exporters located in Monterrey, very few Mexican firms have ever tried to face up to the challenge posed by the U.S. market. Historically, they have justified their passivity on the grounds of their being interested in the protected Mexican market, where they could get away with high margins and low quality and service. One major Monterrey industrial firm, when, in 1980, it was told that it should enter the U.S. electronics industry with its own product—buying a profitable U.S. company if necessary—replied “We can’t do that: the government would regard it as capital flight, and penalize us for being disloyal to the Mexican market.”

Mexican manufacturers seldom think in terms of developing a product designed to be competitive in the U.S. market. At best they think of what merchandise already on their shelves could be exported to the United States; few realize that the U.S. market for the exedentes (left-overs) of Mexican domestic production is small. The real U.S. market for Mexico consists in products whose design, production and marketing are U.S.-oriented from the start. In this perspective, the obstacles for Mexican exporters exist in the minds of Mexican manufacturers, not in tariff schedules. Where, then, are there courses in Mexico in American business English, American corporate culture, American packaging, American advertising and American sales techniques? Where is there a course for Mexican managers on how to read The Wall Street Journal?

To tell Northern firms that their future competitiveness will arise from the increased presence of foreign manufacturers in their midst is, at best, a mistaken notion. Such an external solution is not likely to work. The argument is sometimes given that an FTA will force Mexican firms to sink or swim, but can the Mexican economy afford the risk of their sinking? The opportunity cost of the use of a Mexican floor operator in a foreign-owned plant is the cost of that worker’s not assembling a Mexican-designed product for the U.S. market. Not assembling a
Mexican-designed product means that more passivity is encouraged, and more Mexicans will be drawn into what in Mexico is called the businesses of widows (such as industrial real estate and purely financial investments). The cost of making it seem that the growth of the North was a function of the activities of the newly arrived American manufacturers is the cost of deferring the emergence of a sustainable Mexican entrepreneurial class dedicated to U.S. marketing.

The North already faces two dilemmas: How to overcome its passivity and inertia in relation to the U.S. market and how to upgrade its chronically under-funded infrastructure? The North does not want to have to worry about how that infrastructure will be strained even further by the presence of new foreign investments. So, absent a Bush-Salinas commitment to a $10-20 billion package for border infrastructure and a complete fiscal rethinking of the border region, it would be better for the North to oppose an infrastructure-less FTA.

The real Northern agenda in FTA negotiations

Northern businessmen, however, are not telling what drives their support of an FTA. Mexico City quickly put the word out to the big Monterrey conglomerates (as well as to the northern press) that their cooperation (i.e., non-opposition) was requested. As one Monterrey businessman put it in late May, after the U.S. Congress had voted in favor of extending fast-track authority for trade negotiations, “The Government is buying the private sector’s cooperation with favors, and everybody is pretty much on board with Mexico City’s view of an FTA with the United States. Unfortunately, not much independent leadership can be expected from the big conglomerates, which are now being run, not by the founders, but by their sons, Mexico’s Yuppies, the Mexico-Citified ‘Juniors.’” To express its solidarity with Mexico City, the northern press has down-played or ignored criticism of the Mexican government’s trade proposal.

Do northern Mexican business leaders actually expect a trade boom coming out of an FTA? On April 19, 1991, a senior educator at Monterrey Technical Institute’s main campus said, after listening to comments about how an FTA might harm Mexico, “As for me, I
would sign an FTA with the United States tomorrow—even if it were a bad deal for Mexico.” He explained that the FTA would give Mexico something it sorely needed: a new frame of reference for looking at the future, one that inherently overcame the protectionist, isolationist framework of earlier decades. A few days later, at the Tech’s Chihuahua campus, twenty of thirty maquiladora executives agreed with this educator’s observation (the other ten abstained from expressing their views).

A more subtle understanding of the Monterrey educator’s sentiment was expressed by an industrial park manager in Mexicali on May 9: the FTA, he said, will give the North new policy tools with which to negotiate with Mexico City over budgets and programs. “Mexico City,” he observed with irony, “is our biggest bottleneck on the U.S.-Mexican border.” He said that he hoped that the FTA would go a long way toward upsetting the monopolistic grip of Mexico City on northern development. “Mexico City controls our elections, our state and municipal budgets, and our demographic, energy and socioeconomic statistics.” This entrepreneur, then, would sign a Free Trade Agreement because it would given the North a new point of leverage over the Center—even though, in the short and medium terms, it might be bad for the North.

The idea that an FTA might give Mexico a new world view free from the constraints of history was objected to by an historian at the National University in Mexico City: “Mexico cannot live in a history-less, symbol-less past. The way in which we think about the future must incorporate the past. Mexico should sign an FTA with the United States only if it is a good deal for Mexico.”

**Conclusion**

On balance, then, the winners in a Free Trade Agreement without a parallel commitment to finance a major up-grading of border infrastructure are these: Northern industrial real estate entrepreneurs, and Northern politicians seeking moral support for their struggle with Mexico City over the issues of electoral, fiscal and informational democracy. Mexico City will win to the extent that an FTA provides access to new credits and results in greater domestic and international legitimacy. Washington D.C.
(sometimes called Washington, D.F., on account of its pro-
Establishment leanings), also gains a low-budget negotiating card
with which to bargain with the EEC and Japan.

As proposed, the only losers in a Mexico City-Washington
trade agreement will be the companies themselves and the residents
of the bi-national communities in which they will establish new
plants: the FTA is good neither for General Motors nor for the
residents of the U.S.-Mexican border region; for without adequate
infrastructure on the border, General Motors will be less competitive
and will continue to lose U.S. market share to Japanese and
European imports.

The negotiation of an FTA between the two countries is an
ideal time to attend to a region that has not been dealt with
substantively in bilateral negotiations since the Treaty of Guadalupe
Hidalgo in 1848.

Notes

1 A reader of The San Diego Union complained in a letter to
the editor published on May 26, 1991, that "the only viewpoint you
have expressed is one of unconditional support." Jeffersonian
students of American democracy will rightly object to anything that
tends to make the American press an arm of the executive branch—
especially if the trunk of that branch is abroad, in this case, in
Mexico City. One reader believed that Interstate Highway I-5 out
of San Diego has become dangerous to automobile traffic owing to
the frequency with which non-documented (read: illegal) immigrants
attempt to cross the ten-lane highway on foot.

2 A useful, more recent, discussion of environmental
problems on the border, although without quantification, is the U.S.
GAO's report on "Information on Mexican Environmental
Protection Regulations and Enforcement" (B-243997, May, 1991).

3 A vignette illustrative of the grief experienced by Mexican
business people owing to the quality of telephone service in Mexico
can be seen in this comment by a Mexican businessman who bought
a second home in Marin County, near San Francisco, in the early
1980s: "I went to the telephone company in person to begin the
process of getting service. A young woman asked only for my
name and address and if an installation date two days away would
be satisfactory. When I asked, ‘Is that all?’ and she replied yes, tears unexpectedly welled up in my eyes. In Mexico I would have waited for weeks or months, and only with pay-offs would I have obtained service.” In the 1990s Mexican businessmen flocked to the cellular phone as a hoped-for life raft that might save them from the inefficiencies of the telephone system.

4A reader from Guadalajara of an earlier draft of this paper wrote that it is best not to use the Mexican zip codes, as “mail ends up in strange places.” A Mexico City resident believes that it’s pointless to mail letters except at the main post office.

5A U.S. government official with broad experience in Latin America observes, “In Latin America, the way you win a government contract is to disqualify your competitor on some technicality, such as trying to show that his bid was not properly sealed or notarized.”

6In Pemex, where, officially, a restructuring is taking place for a new organization and role for Pemex, in the passageways workers talk of the “compadrígrama de la des-estructuración de Pemex.” “Compadrígrama” is a made-up word, a take-off on organigrama (table of organization) that points to a common quasi-nepotistic pattern in Mexican public agencies: some politically appointed officials have been known to name one of their children’s godfather (the compadre) to a lucrative post. The other made-up word is a take-off on “destruction.”

7Sometimes called in Mexico “The Law of Ice,” suggesting that a person is frozen out of some activity.

8The same sort of reasoning compares Mexico to Spain prior to its admission to the EEC: before, it was a poor, authoritarian, back-water state, afterwards it began a return to prosperity and democratic government. Mexico, this way of thinking goes, will become another Spain—or else another Peru. (See Enrique Krause, “The Historic Dimensions of Free Trade with Mexico,” Wall Street Journal, May 24, 1991, p. A11.) The problem with this reasoning-by-analogy is that it is another form of an externalized solution to issues that easily can be understood on their own domestic terms. In one way or another these issues all concern the need for decentralization of the State’s monopolistic control of fiscal, electoral and informational policies.