Profile: Carlos Heredia

"Mexico will not collapse"

Development specialist discusses NAFTA and Mexico's future

WRH: What is your reaction to President Salinas' promise to link wage raises to increases in productivity as well as the NAFTA labor side agreement?

CH: Surely that's an empty promise which was geared to getting the labor side agreements adopted. It does not correspond to the reality that Mexican workers must deal with daily. There are many measurements of productivity in each industry and it has not been made clear by the Salinas administration just how these will be arrived at and how they will apply to wage increases. Only the day before the Salinas announcement, the Finance Secretary, Pedro Aspe, who is also one of the leading contenders for the PRI presidential nomination, said that wages would not be raised, in order to control inflation. There is no question that during the Salinas Administration, the real wages of workers have slipped precipitously. The NAFTA labor side agreement, which mainly represents the views of the Clinton Administration, gives valuable legitimacy to the coercive and inequitable manner in which the Mexican Government routinely treats its workers. The report on Mexican labor prepared by the U.S. State Department for a Congressional hearing on NAFTA contains numerous distortions. If the side agreement is adopted in its present version, regardless of its original intentions, Mexican laborers will be further hurt, as the government will control their wages with increasing impunity.

WRH: What of Mexico's predicted currency devaluation? How will that affect foreign investment?

CH: In February of this year, several political and economic analysts speculated that the peso may be devalued by the Salinas administration next January, after NAFTA is supposed to go in effect. This will hurt Mexico's ability to buy grain and other products from the United States. Over the previous five years, Mexico has run a trade surplus with this country, yet due to increased imports of industrial goods —based on the expectation that NAFTA will pass the U.S. Congress— the trend was reversed last year and Mexico is now running a huge trade deficit. There is no denying that the peso is grossly overvalued, but up to now, the Salinas administration has refused to lower it relative to the dollar. By not devaluing the peso, the whole trade picture is distorted.

WRH: With Mexico's growing trade imbalance and compounding foreign and current account debt, what does NAFTA hold for the future of the Mexican economy?

CH: Private sector borrowing has really skyrocketed and Mexico's foreign exposure has increased significantly in the last few years because of it. Bank of Mexico statistics tell us that such loans are financing the consumption explosion, but there is little proof that there is any connection between this profligate spending and expanding the economy to create jobs. The figures also obscure the country's heavily skewed income distribution, illustrated by the 13 prominent Mexicans who are worth over $1 billion, as opposed to the bottom 25% of the population, who, according to the World Bank, have a per capita income of $360 per year. This gross income inequality has thrived under Salinas' rule. Millionaires can borrow huge amounts of money to buy existing corporations which merely increases their personal wealth, not necessarily the country's. Rarely do these transactions lead to productive investments which create new jobs. On the contrary, such consolidation often forces small and medium-sized Mexican business to close down, leaving only the large Mexican industrial and multinational giants to "compete" in the free market.

WRH: Given this massive borrowing, could Mexico be headed for another debt crisis?

CH: What will happen is that with a forced devaluation, a massive capital flight will occur, setting the stage for an urgent request from Mexico City for another U.S. Treasury bailout. What I don't see, with the kind of political environment you now have on Capitol Hill, is how the administration could provide that money, even if it wanted to. But if Mexico is turned down, it will generate a much more difficult crisis to deal with. After all, the White House has been claiming all along that Mexico is a sure winner and represents the perfect model of economic restructuring to be emulated throughout the world.

WRH: Asian nations have expressed interest in forming trade alliances with Mexico and the rest of Latin America. Are such links inevitable?

CH: It depends if this administration decides to follow the multilateral or the bilateral approach. Washington is still not considered to be a very reliable trade partner. That gives ammunition to NAFTA proponents in this country who say we have to show foreigners that the U.S. is dependable. This country is still by far the main trading partner of every South American country, with maybe the same being true in the rest of Latin America and the Caribbean.

WRH: If NAFTA doesn't pass the U.S. Congress, how will that affect the opposition's chances in Mexico's 1994 presidential elections?

CH: If NAFTA fails, there may be some stability problems, but Mexico will not collapse. In fact, NAFTA's demise, with Salinas' attendant loss of prestige, might have the effect of opening up the Mexican political system, creating a unique opportunity to have a presidential transition without the enormous weight that multinational corporate interests and Washington traditionally have placed on Mexican politics. If NAFTA is ratified, Salinas' economic program will be seen as a great success, which will help bolster his presidency and give him enormous leverage in picking his successor.-EH

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