Neoliberal Myths and Reality: The Mexican Experience

MARTIN HART-LANDSBERG [1]

I. NEOLIBERAL MYTHS AND REALITY: THE MEXICAN EXPERIENCE

1. Opposition to neoliberalism, including the policies of international organizations like the IMF, World Bank, and the WTO, is growing among working people in developed and less developed countries. Mainstream economists and representatives of major international economic organizations have responded by arguing that neoliberal policies are necessary to promote third world development. Mexico has become their favorite example.

2. In this paper I challenge mainstream interpretations of the Mexican experience. Mexican leaders have indeed embraced neoliberalism. Over the last two decades they lowered tariffs, privatized state enterprises, encouraged foreign direct investment, and eagerly pursued every free trade agreement possible. As a result, the Mexican economy is now dominated by export-oriented transnational corporations, primarily from the U.S., and a small number of large Mexican business groups.

3. Rather than celebrate this transformation, I argue that it was achieved at the expense of the health of the broader Mexican economy and Mexican working people. In short, Mexico has achieved not development but " immiserizing" international competitiveness. Moreover, even this " achievement" appears endangered. The 2001 U.S. recession brought Mexican growth to a halt, and foreign investors have begun moving operations to other, lower cost, locations.

4. Thus, correctly understood, the Mexican experience actually undermines the mainstream defense of neoliberalism. However, the answer to contemporary development problems is not the reinvigoration of the state-directed growth strategies of the past. These strategies suffered from their own serious contradictions that helped pave the way for current neoliberal globalization dynamics. It is time to acknowledge that the major obstacle to development is capitalism itself, and that our efforts must be directed towards advancing new visions of democratic and sustainable development.

1. IDEOLOGICAL STRUGGLE AND MEXICO

5. Opposition to neoliberalism—which can be defined as a political-economic project designed to promote maximum freedom for private profit making—has grown slowly but steadily since the 1980s. But, having dismissed popular concerns over the negative consequences of neoliberal policies, political leaders from the advanced capitalist countries were unprepared for the massive 1999 anti-WTO demonstrations in Seattle and the internationally coordinated actions against neoliberalism that followed.

6. In response, representatives of the established order have attacked " anti-globalization" activists for opposing the policies and institutions that are in the best interest of the poor in the third world. At one time their pronouncements would have silenced any public debate

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[1] Martin Hart-Landsberg: Department of Economics Lewis and Clark College Portland, Oregon, USA 97219 marty@lclark.edu

over economic policy. But times have changed. Advocates of neoliberalism now find it necessary to offer evidence in support of their claims.

7. For the past two decades, the IMF and World Bank defended neoliberal policies by arguing that they were responsible for East Asia's rapid and sustained economic growth. They did so even though most East Asian countries followed policies radically different from those advocated by the IMF and World Bank (Hart-Landsberg, 1993: Part I). Then came the 1997-98 crisis. Almost overnight, the IMF and World Bank disowned these countries, blaming their economic problems on the fact that their economies were hopelessly distorted by cronyism and in need of a good application of neoliberalism (Burkett and Hart-Landsberg, 2000: Chapter 13). While this shameless about-face allowed the IMF and World Bank to avoid undertaking a critical self-evaluation, it also left them in search of new evidence showing the benefits of neoliberalism.

8. The heir apparent to the former East Asian " model" economies is Mexico. Although it was not long ago that Mexico was being encouraged to learn from East Asia, it is easy to see why neoliberals decided to celebrate Mexico. Recent Mexican presidents have willingly and enthusiastically embraced capitalist globalization. In addition, the Mexican economy registered five successive years of growth over a period (1996-2000) when most third world countries suffered from stagnation or outright recession. Mexico has been described by the World Bank as " the fastest growing economy in Latin America, an investment grade borrower, and a model of financial and commercial integration (De Ferranti, 2001: xxiii)."

9. Key to this performance was the restructuring of the Mexican economy, best symbolized by the establishment of a new growth core rooted in the production and export of manufacturers. For example, exports as a percentage of GDP rose from 15 percent in 1993 to 30 percent in 1998, and the share of manufactures in total exports soared from 43 percent in 1990 to 85 percent in 1998 (Economic Commission for Latin America and the Caribbean, 2001: 75, 101). In January 2003, Mexico's Secretary of the Economy reported that the country had become the biggest exporter in the region, with 46 percent of total exports, and the seventh largest exporter in the world (La Botz, 2003).

10. Mexico's " forward" looking trade policies are said to be one of the most important reasons for this successful restructuring. After joining NAFTA, Mexico signed trade agreements with Chile, Venezuela, Colombia, Bolivia, Costa Rico and Nicaragua. It also negotiated a trade agreement with the European Union and is in negotiations with Japan, South Korea, China, and Israel.

11. Equally important, according to its neoliberal supporters, has been Mexico's commitment to internal reform, which enabled the country to take advantage of its new trade opportunities. In the words of Jose Angel Gurria, Mexico's Secretary of Finance and Public Credit:

12. The reforms—which have included trade and capital account liberalization, increased private sector participation in key sectors of the economy, tax reforms, changes in labor market structure, capital market liberalization, and pension system reforms—have transformed a closed, heavily regulated economy with high government intervention into an open, market-driven economy. (Gurria, 2000: 24)

13. According to advocates of neoliberal globalization, Mexico's achievements demonstrate forcefully that anti-globalization activists have a misguided understanding of

capitalist dynamics. And, if other countries follow Mexico in aggressively pursuing international free trade agreements and internal economic reforms, they too can expect similar benefits.

14. While it is true that the Mexican economy has undergone a significant restructuring, proponents of neoliberalism have tended to be selective in their description and evaluation of the Mexican experience (as has the Mexican government). As we see below, the policies that produced the country's celebrated growth in exports and GDP also produced a hollowing out of the Mexican domestic economy, growing trade deficits, and increasing inequality and poverty. In short, a more complete evaluation of the Mexican experience illuminates not only the ideological nature of the work of neoliberal economists but also the highly destructive nature of capitalist globalization dynamics.

2. THE RISE AND FALL OF STATE-DIRECTED NATIONAL INDUSTRIALIZATION

15. Mexico's recent embrace of neoliberalism ended a 50-year experience with state-directed industrialization dating back to the 1930s. Responding to decades of foreign domination and peasant uprisings, President Lazaro Cardenas (1934-1940) promoted land reform, nationalized key foreign assets (most importantly the railway system and the petroleum sector), and used state resources to encourage private investment in an effort to secure Mexico's independence and modernization.

16. The economic role of the state continued to expand over the post war period. Using borrowed money (largely from foreign sources), the Mexican state subsidized loans; provided the private sector with below cost, state produced industrial inputs (including petroleum, lumber and mining products, electricity, transportation, cement, and steel); and established new parastate firms producing products such as auto parts and machine tools. It also protected the new manufacturing activity with high tariffs.

17. While growth was slow and uneven during the decade of the 1950s, the years from 1959 to 1970 were among the most successful in Mexico's industrial experience. The economy grew at an average annual rate of 6.5 percent while inflation averaged only 2.8 percent.

18. Despite its many accomplishments, Mexico's post-war economic strategy was not sustainable. Because the state had sought to promote modernization in alliance with the Mexican business elite and within terms acceptable to U.S. political leaders, it refrained from taking actions that limited private sector profitability. As a result, it never developed a secure and stable source of revenue to fund its activities. More critically, it never developed a strategy to deal with the country's worsening balance of payments situation.

19. Industrial production was increasingly directed towards the protected domestic market. Moreover, it remained heavily dependent on foreign technology and inputs. At the same time, the largely ignored agricultural sector was unable to generate the foreign exchange needed to cover the growing imports of consumer durables and capital goods.

20. The Mexican economic " miracle" finally came to an end in the 1970s. Balance of payments problems forced the government to recess the economy in 1971-72, and then again in 1975-76. But, hoping to overcome structural weaknesses and restore past growth rates, the state continued to expand its activities, including the number of parastate firms.

21. Despite their previous gains from state activity, business leaders grew uneasy about the steady growth of state power, seeing it as a potential threat to their independence. They also

feared the growing labor movement, which had gained strength from the long expansion. By the mid-1970s, their unease with state policy turned into opposition. They wanted the state to reduce its direct role in the economy as well as maintain slower growth in order to weaken labor activism. Angered by the state's refusal, they " deserted" the economy. Capital flight intensified over the decade, but the government took no steps to stop it.

22. A rapid rise in oil prices beginning in the late 1970s allowed the state to overlook business opposition its strategy, and underwrite a new period of growth that lasted from 1978-1981. However, U.S. government attempts to stabilize the dollar pushed up world interest rates and triggered a global economic slowdown. The combination threw Mexico into a severe balance of payments crisis. In February 1982, the government was forced to devalue the peso by 78 percent. In August, it was forced to declare a temporary suspension of debt payments and ask the U.S. government for emergency assistance. It then devalued the peso again, this time by 60 percent.

23. Perhaps the last straw for Mexico's business leaders came on September 1, 1982. President Lopez Portillo, in his final speech to the nation, announced the nationalization of Mexico's banks in an effort to control capital flight. The fact that the state was willing to pursue stabilization at the expense of private property rights intensified business determination to secure a new economic strategy for Mexico based on neoliberal principles.

24. The U.S. government, taking advantage of Mexico's request for financial assistance, demanded that the Mexican government reduce its spending, privatize state firms, and open domestic markets to foreign trade and investment. And for reasons noted above, the Mexican elite supported these demands. Thus, it was both internal and external dynamics that led the Mexican government to break with the past and adopt a new economic strategy.

3. THE NEOLIBERAL TRANSFORMATION

25. The government's first step in the process of " neoliberalization" of the Mexican economy was to slash public spending, which pushed the economy into recession in 1982, 1983, and 1986. The economic contraction succeeded in generating the large trade surpluses needed to make debt payments.

26. Next the government launched a major privatization program. In 1984 the state controlled 1,212 firms and entities. By December 1988, the number had been reduced to 448 (Cypher, 1990: 132).

27. In the middle of the decade the government began dropping trade restrictions in order to cheapen imported inputs and promote export-oriented growth. It joined the GATT for similar reasons. As tariffs were reduced and import licenses were eliminated, many manufacturing firms (especially domestically oriented ones) were driven into bankruptcy.

28. Mexican workers paid a heavy price for their government's embrace of neoliberalism; real wages fell by approximately 30 percent over the decade of the 1980s. In contrast, the new policies offered Mexico's business elite numerous opportunities for profit making. For example, Mexico's currency devaluations allowed them to make a financial killing by repatriating their funds. They also benefited from the government's privatization program, in which state firms were offered to them at attractive prices.

29. Significantly, despite private capital's opposition to past state policies, the Mexican state continued to maintain restrictions on foreign investment through most of the decade of the 1980s. However, continuing economic difficulties as well as elite desires for closer

relations with foreign capital encouraged the government to pursue new “ globalization” initiatives.

30. In 1989, the government initiated a sweeping liberalization of Mexico’s foreign investment regulations. It revoked measures that had blocked majority foreign ownership and opened areas that had previously been off-limits to foreign investors. And, in 1990, it sought and won U.S. support for an agreement to promote Mexican-U.S. economic integration. The result was NAFTA.

31. Between 1990 and 1993, approximately $91 billion flowed into Mexico, a total equal to almost one fifth of all net inflows to developing countries (Bello et al, 2000: 10). Most of this money flowed into stocks and bonds that supported Mexican corporate profits. However, in response to a rise in U.S. interest rates and Mexican political instability (which was intensified by the Zapatista struggle), foreign investors began pulling their money out of the country in early 1994. The Mexican government tried to stem the outflow by selling dollar denominated bonds and raising interest rates, but its efforts were unsuccessful. Nearly out of reserves, the government was forced to let the peso float in late December. Its rapid fall only intensified the ongoing capital flight. The economy collapsed in 1995: GDP fell by 6.2 percent and wages fell by 25 percent.

32. This collapse had a major impact on the ownership and productive structure of the Mexican economy and completed Mexico’s economic transformation. Mexican businesses had borrowed heavily to purchase newly privatized banks, mines, the telephone company, and other enterprises. But with interest rates rising to more than 100% in early 1995, many companies found it impossible to survive. Many reluctantly sold off large shares of their operations to eager foreign buyers. At the same time, the new peso devaluation and lower wages, in concert with NAFTA, also encouraged many foreign firms, especially from the U.S., to undertake new export-oriented investments. Altogether, foreign direct investment in Mexico exploded from a level of approximately $2-3 billion a year in the 1980s to an average of almost $11 billion a year from 1994 to 1999 (Clifford, 2001: 60).

33. The end result of this transformation was an economy that was more export oriented and dominated by foreign (mostly U.S.) capital. The percentage of exports produced by multinationals rose from 56.5 in 1993 to 64.2 in 1998. The U.S. share of foreign direct investment in Mexico increased from 45 percent in 1994 to 71 percent in 1998, with much of it concentrated in the manufacturing sector. And, the percentage of exports sold to the U.S. rose from 79.3 in 1993 to 88.2 in 1999 (Economic Commission for Latin America and the Caribbean, 2001; Clifford, 2001: 60). It is this “ new,” export oriented, transnational dominated economy, and its post-1995 growth record, that mainstream economists celebrate when they argue for the superiority of neoliberal globalization.

II. THE MEXICAN EXPERIENCE REVISITED: DEPENDENCE AND DISARTICULATION

34. Despite mainstream claims to the contrary, this neoliberal-style restructuring has intensified Mexico’s external economic dependence and internal economic disarticulation. As a result, Mexico’s recent economic growth has done little to enhance the economic balance or strength of the domestic economy.

35. This reality is illustrated by the operation of Mexico's two most dynamic exporters: the maquiladoras and foreign export platforms. The maquiladoras are foreign owned firms (most of whom operate along the U.S.-Mexican border) that are allowed to import inputs duty free because they export their entire output. In line with Mexico's changing economic strategy, the maquiladoras have become increasingly central to the Mexican economy.

36. Their exports grew by 17-20 percent a year from 1990 to 1997, with their share of total exports rising from 33.1 percent to 40.9 percent (Kunhardt, 2001: 40). They also attracted a growing share of foreign direct investment: 6 percent of total FDI in 1994, 14 percent in 1996, and 26 percent in 1999. As a result, by 2000, maquiladoras produced 47 percent of all exports and 54 percent of all manufactured exports (Cypher, 2001a: 14-15).

37. This increase in economic activity was accompanied by a rapid increase in maquiladora employment, from 60,000 workers in 1975, to 420,000 in 1990, to 1.3 million workers in 2000 (Salas, 2001: 17-18). However, this growth in the maquiladora workforce took place in the context of an overall decline in non-maquila manufacturing employment. Reflecting the austerity and market openings of the 1980s and mid-1990s, non-maquiladora manufacturing employment fell from 2.6 million in 1981, to 2.3 million in 1993, and still further to 2.2 million in 1997 (Cypher, 2001b: 21).

38. While the maquiladoras have been celebrated by mainstream economists for anchoring Mexico's economic transformation, they continue to function as an enclave with few connections to the broader Mexican economy. For example, over 97% of their non-labor inputs are imported from outside Mexico (*The Economist*, 2001: 29).

39. Moreover, Mexican workers have not benefited from the shift away from non-maquiladora production. For example, maquiladora workers receive wages considerably below those paid non-maquiladora manufacturing workers. In 1994, average maquiladora wages were only 47 percent of non-maquiladora manufacturing wages. While the gap narrowed over the remainder of the decade, closing to approximately 80 percent, this trend did not represent an improvement for maquiladora workers. Rather, it was caused by non-maquiladora manufacturing wages falling at a faster rate than maquila wages (Cooney, 2001: 59).

40. Many foreign producers of manufactured exports did not go through the legal procedures required to register as maquiladoras. In most cases, their original investments were oriented towards the domestic market and/or their operations made significant use of local inputs. However, as a result of NAFTA and the post-1994 declines in the peso and Mexican wages, they have found it profitable to convert their operations into foreign owned " export platforms." While these export platforms trail the maquiladoras in overall dollar value of exports, their share of total exports rose from 19 percent in 1993 to 26 percent in 1996 (Kunhardt, 2001: 42).

41. Five foreign auto producers (GM, Ford, VW, Daimler-Chrysler, and Nissan) dominate this group. By the mid-1990s, they accounted for some eighty percent of foreign platform exports. In fact, the Mexican subsidiaries of GM, Ford, VW, and Daimler-Chrysler are the leading export companies in the country.

42. There are those who argue that the growth of the auto sector represents the leading edge of Mexico's transformation into a high-value-added producer of internationally competitive products. Some of the auto plants established in Mexico are indeed state of the art.

However there is little evidence that these plants have made any significant contribution to the industrial upgrading of the Mexican economy.

43. For example, according to The United Nations Conference on Trade and Development [UNCTAD],

44. because the [growth of the Mexican automobile industry] has been driven by the needs of United States TNCs, weak linkages with domestic producers, low value added and a heavy reliance on a single market have given rise to concerns with regard to Mexico's own industrial development. In particular, the Mexican components industry remains heavily concentrated in the labor-intensive processes of engine castings and wiring harnesses, although some upgrading is expected in the production of more complex parts such as transmissions. Local content is particularly low among the maquiladora auto-parts assemblers, but even outside the border areas over two thirds of components are sourced outside Mexico. (UNCTAD, 2001: 110)

45. And, despite the fact the many of the newly established auto plants have productivity levels comparable with those in the United States or Japan, Mexican workers receive wages far below their American and Japanese counterparts. In 1994, for example, General Motors paid its U.S. workers $19 an hour and its Mexican workers $1.54. Moreover, while productivity in the Mexican auto sector rose by 10.3 percent from 1994 to 1999, auto sector wages fell by 20 percent (Cypher, 2001a: 6, 13).

46. Although worker dissatisfaction with low wages led to numerous strikes, corporations have resisted any improvements. In fact, according to a senior level manager at a U.S. owned Mexican assembly and stamping plant, " It is the policy [of the parent company] and I guess of most every other company that does multinational business, to pay only at the prevailing wage of the area that they are in (Shaiken, 1994: 58)." This statement is especially revealing since most state of the art plants were deliberately located in agricultural areas where wages were low.

47. The above described enclave-like nature of foreign manufacturing operations is not unique to Mexico. UNCTAD did a study of trends in value-added in manufacturing and exports of manufactures, over the period 1981-1996, for seven leading third world countries (Hong Kong, Malaysia, Mexico, Korea, Singapore, Taiwan Province of China, and Turkey) (UNCTAD, 2002). It found that for the group as a whole, manufacturing value added was consistently below the value of exports of manufactures, with the ratio falling from 76 percent in 1981 to 55 percent in 1996. In addition, while the group's ratio of manufactured exports to GDP rose sharply, its ratio of manufacturing value added to GDP remained generally unchanged. Finally, although the group's exports and imports of manufactures were initially balanced, beginning in the late 1980s, imports began growing much faster than exports (UNCTAD, 2002: 77-8).

48. UNCTAD offered two main reasons for why these leading third world countries experienced no upward trend in manufacturing value added and growing trade deficits despite increasing their exports of manufactures. First, trade liberalization greatly increased the import content of their domestic production and consumption. Second, most of their exports were produced as part of transnational structured production networks (also encouraged by trade liberalization) that limited third world operations to import-dependent, low value-added processes.

49. UNCTAD found that only South Korea, in its group of seven countries, " had a production-trade configuration similar to that of the major industrial countries (UNCTAD, 2002: 77)." The primary reason for this achievement was that, in contrast to most other third world countries, South Korea's government had aggressively used trade and industrial policies to promote a nationally integrated industrial base.
50. Comparing the economic performances of Mexico and South Korea is especially instructive. While Mexico's manufacturing value added is approximately one-third the value of its exports of manufactures, South Korea's manufacturing value added is approximately 50 percent greater then the value of its exports of manufactures. Mexico's exports of manufactures rose from 0.2 percent of the world's total in 1980 to 2.2 percent in 1997, yet its share of world manufacturing value added actually declined, from 1.9 percent to 1.2 percent. Korea's share of world exports of manufactures also rose, from 1.4 percent to 2.9 percent. But, in contrast to Mexico's experience, its share of world manufacturing value added rose as well, from 0.7 percent to 2.3 percent (UNCTAD, 2002: 80-1).
51. The United Nations Economic Commission on Latin America and the Caribbean came to a similar conclusion about the lack of benefits from transnational corporate export activity. It noted that:
52. many countries that improved their international competitiveness through FDI in manufacturers not based on natural resources, generated very weak linkages between the local economy and the export platforms. In general the lack of linkage promotion strategy was highlighted, especially in the cases of Mexico, Costa Rica and Honduras, where the success in exports has not been followed by a similar development of the local industrial base. (UNCTAD, 2002: 75)
53. Even the World Bank has been forced to acknowledge that the Mexican growth strategy has produced a divided and disarticulated economy:
54. The productive sector continues to be characterized by a dual structure that seems to have become increasingly differentiated in the wake of trade liberalization and the banking crisis of the 1990s. On the one side is a dynamic export sector made up of internationally competitive firms, including the maquiladoras, and on the other is a less efficient domestic-market-oriented sector dominated by microenterprises and small- and medium-scale firms. (Clifford, 2001: 67)
55. While mainstream economists deny that that there is any connection between Mexico's growth strategy and these structural problems, the reality, as highlighted above, is that the dynamism of the foreign dominated export sector has been built largely at the expense of the broader domestic economy. Moreover, although this export sector has been successful in generating exports and profits for transnational capital, its operation has contributed little in the way of national value added or income growth.

III. THE MEXICAN EXPERIENCE REVISITED: SOCIAL CONSEQUENCES OF RESTRUCTURING

56. Mexican working people have paid a high cost for their country's export success. Trends in the labor market are one important indicator of this cost. From 1991-98, the percentage of urban workers employed for wages fell from 73.9 to 61.2. Over the same period, the percentage of unpaid workers rose from 4.6 to 12, and the percentage of self-

employed increased from 16.6 to 22.8. Equally telling are trends in hourly earnings: wage workers saw their average hourly income fall by 26.6 percent; self-employed workers suffered a 49.6 percent decline (Salas, 2001: 16-17). While wages did begin rising in 1999, and recorded strong growth in 2000, average earnings remained significantly below 1994 levels (before the “ peso crisis”), which were in turn below those of 1982 (before the “ debt crisis”). And, as a result of the recession in 2001, wages are once again falling.

57. More generally, Mexican economic growth has been associated with growing poverty and social desperation. According to the *Wall Street Journal*:

58. In terms of what they can buy for themselves, most [Mexican] consumers are worse off today [1999] than they were a decade ago. Even those lucky enough to have one of the new assembly-plant jobs can’t buy as much as they could have five years ago, before Mexico abandoned its fixed exchange rate. Since Mexico’s big 1994 currency devaluation, consumers here have suffered a staggering 39% drop in their purchasing power. Just since 1997, the number of people living in extreme poverty—defined as workers earning less than $2 a day—has grown by four million, or twice the growth of the population. (Millman, 1999: A1)

59. The Inter-American Development Bank paints a similar picture. One of its research reports notes that despite rapid growth between 1996-98, “ poverty has barely declined. In fact, the incomes of the poorest 30 percent of the population actually declined. The huge increase in mean income was due entirely to income gains among the richest 30 percent—particularly the richest 10 percent—of the population (Inter-American Development Bank, 2001: 1).”

60. Mexican unemployment rates did remain low over the decade of the 1990s, averaging 2-3 percent a year in urban areas (with the exception of 1995 when rates rose over 6%). But as Carlos Salas explains, it would be a mistake to conclude that:

61. Mexico has avoided the difficulties that most market economies face of providing enough jobs. There are, in fact, clear explanations as to why the official unemployment measures are so low. Mexico’s labor force statistics count someone as employed if that person has worked at least one hour in the week before the survey takes place, following ILO standards. Under this definition, a person is counted as employed regardless of whether the person only works half time for no pay in a family business or works full time in a modern manufacturing plant. But Mexico’s low rate of open unemployment is not a statistical distortion—it primarily reflects the working of a different labor market structure. Given that a large proportion of the population has no capacity for saving, and that there is no unemployment insurance, open unemployment in Mexico is, to paraphrase Gunnar Myrdal, a luxury few can afford. (Salas, 2001: 15)

62. According to the World Bank, Mexico will have to grow by an average of at least 7 percent a year “ if it is to meet the needs and expectations of its citizens, especially in terms of job creation among the poor. (By some accounts, Mexico requires the creation of 1 million jobs per year only to accommodate new labor market entrants, while it creates about 600,000 at present.) (Giugale, 2001: 8).” But, Mexico achieved that rate of growth only once over the last two decades, in 2000. Moreover, Mexico’s growth prospects appear increasingly dim.

IV. THE BANKRUPTCY OF NEOLIBERALISM

63. Even if one were willing to overlook the structural imbalances and high social cost associated with Mexico's celebrated export activity, there is reason to question whether it can be sustained. As we have seen, Mexico's post-1995 growth was largely due to transnational produced exports to the U.S. But the long U.S. expansion was built on unstable foundations, making it unlikely that the economy will be able to sustain its past rates of growth. Thus, Mexico's own economic future is in danger. In fact, the 2001 recession in the U.S. brought Mexico's economy to a " screeching halt." The Mexican economy contracted by 1.4 percent in 2001. Maquiladora production fell by 9.2 percent and maquila employment declined by some 20 percent (Smith, 2002: 24). These declines have been widespread; even high-tech border production has suffered. Mexico's economy remains stagnant: its GDP grew by only 1.2 percent in 2002; foreign investment fell to $13.5 billion, only slightly more than half of what it was in 2001 (La Botz, 2003).
64. More importantly, many business analysts predict that Mexico's maquila sector will not regain its past dynamism even when the United States economy recovers. According to *Business Week*, although Mexican wages " fell sharply in the age of the 1994 peso devaluation, wages in Mexico have been rising faster than inflation for the past two years. And since the peso has strengthened almost 5% against the dollar since January [2001], Mexico-based exporters are seeing local production costs increase Smith, 2001: 42)."
65. Growing numbers of exporters have responded to this situation by shifting their production to Asia, and especially China. As *The Economist* explains, " While the average labor cost for assembly plants in Mexico is now around $2 an hour, China's figure is 22 cents. Although plants in Mexico are more sophisticated, the country has failed to develop a network of local suppliers that would make it hard for manufacturers to leave as the Chinese catch up (*The Economist*, 2002: 36)."
66. So, even though Mexican wages still remain below their 1994 level, businesses in Mexico see their recent increase as unacceptable because there are other countries where workers will work for lower wages. In response, the Mexican government and Mexican employers groups have decided to " exert even more pressures to keep down Mexican wages….[They] have stated that they will attempt to push wage gains down from 5 percent to 3 percent in 2003 (La Botz, 2003)." This is a no win situation for workers in Mexico as well as in Asia.
67. The bankruptcy of neoliberalism as an economic strategy becomes even clearer when one examines the policy advice offered to the Mexican government by neoliberal economists, such as those employed by the World Bank. The Bank, in a policy report issued in early 2001, raises concerns about the dismal state of Mexico's social and physical infrastructure and the importance of improving it to Mexico's economic future (Giugale et al, 2001). As *Business Week* explains: " The country has long suffered from problems of its own making—poor schools, rampant corruption, and outmoded infrastructure, just to mention a few (Smith, 2001: 43)."
68. It is easy to criticize Mexico for its dilapidated public infrastructure. But what were the policies that led to this situation? As we saw above, the Mexican government, under pressure from the U.S. government, slashed capital spending over the decade of the 1980s. And following neoliberal thinking, the government continued to withdraw from the

economy over the decade of the 1990s, privatizing enterprises and slashing spending. It was precisely such actions that led mainstream economists to promote Mexico as a model.
69. It is in this context that the World Bank offers the following advice to the Mexican government:
70. Bringing Mexico's infrastructure to an adequate level will also require a major change in the way infrastructure-related sectors are owned and regulated. Over the past two decades, the country rightly sought to substitute private for pubic infrastructure investment. This suited well the fiscal austerity needs of the time, especially since the 1990s. However the private sector's response did not materialize as fully as had been expected, and Mexico effectively began to accelerate the rate of depreciation of its capital stock (total public investment fell from over 10 percent of GDP in the early 1980s to about 2 percent today; in the same period, total investment fell from about 25 percent to below 20 percent). Even if it (mistakenly) wished to, the government can no longer afford to fill that rapidly growing infrastructure gap . . . Instead, the solution lies in private funding and better regulation. (Giugale, 2001: 10)
71. More specifically, the World Bank calls for more private participation in the provision of energy, water, transportation, and communication services and the use of financing schemes that will force working people to pay more for them. It is hard to imagine a more bankrupt position. Neoliberal policies have proven a failure, and the World Bank concludes that the Mexican government must continue implementing them, with even greater urgency then before.
72. In a similar vein, the Bank's report acknowledges Mexico's " human capital" problems, in particular the large and growing number of workers that are unable to find employment in the country's formal labor market: " roughly one in every two Mexican workers does not attend the formal labor market and, of those who remain in informality, about half do so against their will (Giugale, 2001: 15)." In response, the World Bank offers the following suggestions to the Mexican government:
73. What needs to be done? The current system of severance payments; collective bargaining and industry-binding contracts; obligatory union memberships; compulsory profit sharing; restrictions to temporary, fixed-term and apprenticeship contracts; requirements for seniority-based promotions; registration of firm-provided training programs; and liability for subcontractors' employees should all be phased out. (Giugale, 2001: 16)
74. The aim of these suggestions is straightforward. The way to promote more employment in the formal labor market is to " informalize" that market. As the distinctions between the two markets are erased, the World Bank assumes that employers will find formal market regulations less onerous and thus be more willing to hire workers subject to those regulations. The fact that these changes will further undermine the wages and working conditions of Mexican workers is of little concern to the Bank.
75. Given the Mexican government's strong embrace of neoliberalism, it should come as no surprise that its response to these and other World Bank proposals contained in the report was very positive. According to the Mexico Solidarity Network,
76. While the World Bank recommendations created a good deal of controversy in the press and among labor groups, they were solidly backed by the PAN party and the Fox administration. President Fox said that all the suggestions and recommendations made by

the World Bank 'are very much in line with what we have contemplated,' and that indeed they are essential for Mexico to 'really enter into a process of sustainable development.' (Mexico Solidarity Network, 2001)

V. ALTERNATIVES TO NEOLIBERALISM

77. Progressive economists in Mexico are well aware that neoliberalism has been a disaster for Mexico. However for many, their rejection of neoliberalism has not been extended to a rejection of capitalism. In other words, they believe that there are capitalist alternatives to neoliberalism that are capable of promoting Mexican development.
78. To a large extent, such thinking represents a continuing belief in the legacy of the Mexican revolution and the 1930s Cardenas government. This belief in the viability of state directed capitalist " development" has been sustained, despite its failure in Mexico, in large part because of the recent successes of East Asian countries, especially South Korea and Taiwan.
79. For example, Alejandro Nadal, the director of the Science, Technology, and Development Program at El Colegio de Mexico notes that:
80. Mexico has adopted policies that do not guarantee increasing competitiveness through a stronger technological base. Rapidly and indiscriminately liberalizing trade, running balanced budgets that restrict investment in education and R&D, privatizing strategic industries (such as petrochemicals), and getting rid of policy instruments such as the use of the federal government's purchasing power and performance requirements which build backward and forward linkages does not appear to be the best strategy to develop a healthy competitive base. The experience of countries like Taiwan and the Republic of Korea is almost 100 percent counter to this set of policies. Or to put it in other terms, Mexico is following exactly the opposite strategy these countries implemented in the last 40 years. (Cypher, 2001b: 19)
81. While this criticism of Mexico's past economic policies is sound, the implied conclusion that Mexico could achieve development by adopting the South Korean or Taiwanese state-directed growth strategy is seriously flawed. First, one cannot simply replicate another country's experience. State power in South Korea and Taiwan came out of a complex history, not a set of agreed upon policies.
82. Second, East Asian growth came at high expense in terms of civil liberties, human and workplace rights, and the environment. The East Asian experience, while demonstrating that neoliberalism has little to offer third world countries, should not be romanticized; it offers no models (Hart-Landsberg, 1993: Part II).
83. Third, the East Asian strategy, having succumbed to its own contractions, has exhausted its growth potential,. This strategy worked " well" when states dominated their respective national political economies, there were few international competitors, and U.S. and Japanese government policies were supportive. Eventually labor resistance, regional overproduction, and a change in U.S. and Japanese policies undermined it, leading to the crisis of 1997-98 (Burkett and Hart-Landsberg, 2000; Burkett and Hart-Landsberg, 2001).
84. The case of South Korea is perhaps the most noteworthy. As noted above, UNCTAD praised South Korea for being the only third world country whose economic structure closely resembled those found in developed capitalist countries. Yet, beginning in the late

1980s, South Korea’s export competitiveness was being eroded by nationally specific tensions and contradictions, including worker resistance to high rates of exploitation, Japanese reluctance to sell South Korean competitors critical technologies and components, and US efforts to reduce South Korea’s bilateral trade surplus.

85. Its economic problems were intensified past the breaking point by the growth of regional competitors and the resulting overproduction (Burkett and Hart-Landsberg, 2000: Chapter 11). Sharply declining unit export prices caused the country’s export growth rate to fall from 30.2 percent in 1995 to only 3.8 percent in 1996 (Grilli, 2002: 182). As a result of all of the above pressures, South Korean exporters lost profits despite increasing their export volume, which forced a number to declare bankruptcy in 1997. Foreign investors deserted the country and its economy spiraled down into crisis.

86. Desperate to attract new foreign funds, the South Korean government, with the active encouragement of the U.S. government and IMF, has begun dismantling its state planning and regulatory structures, liberalizing and deregulating economic activity, and selling off banks and major (public and private) industrial enterprises to foreign transnational corporations (Hart-Landsberg and Burkett, 2001). And, ironically in light of the true nature of the Mexican experience, this process is defended by mainstream economists who argue that since similar neoliberal policies benefited Mexican workers, they can also be expected to benefit South Korean workers.

87. As the Bush administration seeks to win popular support for the Free Trade Area of the Americas and new WTO initiatives, we can expect to hear more about the Mexican “ success” story (or perhaps that of some other newly chosen “ miracle” country if conditions get bad enough in Mexico). One way to blunt this offensive is to help people see through the distortions and lies surrounding mainstream presentations of the Mexican experience.

88. At the same time, we must also help people see that the answer to contemporary development problems is not the revitalization of the state-directed growth strategies of the past. These strategies, whether in Mexico or East Asia, suffered from their own serious contradictions that helped pave the way for current capitalist globalization dynamics. The crisis and restructuring of East Asian countries, in particular, makes it crystal clear that the major obstacle to development is not a set of free-market/free-trade policies, but capitalism as an international system. Therefore, our efforts must be directed towards advancing new visions of, and strategies for achieving, democratic and sustainable development.

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