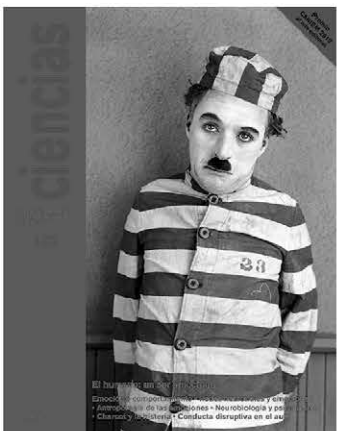


Revista de difusión  
de la Facultad de Ciencias de la UNAM

¡40 años de cultura científica!

# ciencias



de venta en:

Facultad de Ciencias, Departamento de Física cubículos 320 y 321,  
Circuito Exterior, C.U. 04510, Coyoacán, Ciudad de México

Teléfono: 56 22 49 35      revista.ciencias@ciencias.unam.mx

<https://revistacienciasunam.com/en/>



Patrick Hendry/Unsplash.com

Arturo Ortiz Wadgymer\*

## Imported Inflation: Case of Mexico

The Covid-19 pandemic was a global phenomenon that shook the world, with its impact augmented by poor sanitary conditions, deficient care for the sick, and the capitalist pursuit of profit with no concern for social conditions or the welfare of humanity. Between 2020 and 2022, it was evident that the profits of globalization were concentrated while the losses and calamities were socialized.

The irrationality of capitalism was again notorious as the pandemic drew to a close, with the immediate outbreak of a new war for global hegemony. Contagion from Covid had not yet ended as the world bore witness to

missiles flying and arms sales by the countries interested in war, seen as a business opportunity.

In effect, taking advantage of a territorial dispute between Russia and Ukraine, which could have come to a swift conclusion, the NATO countries saw a chance to increase their sales of weapons with high destructive power and completely forgot the ravages of the pandemic. This, in turn, exacerbated the crisis of inflation.

In response, the International Monetary Fund (IMF) and its allies, including ratings agencies, are forecasting a global crisis that has the world on edge once more. In 2022, all nations reported high inflation and forecasts anticipate low economic growth, trade wars, and boycotts that will lead only to shortages and drive up consumer prices.<sup>1</sup>

\* Arturo is a researcher at the Institute for Economic Research (IEEC, UNAM); you can contact him at [wadgymer@unam.mx](mailto:wadgymer@unam.mx).

For Mexico, those same organizations forecast Gross Domestic Product (GDP) growth falling to 1 percent or even less, and double-digit inflation, which means that increases in wages and public assistance to the needy will be diluted by rising prices, largely negating their possible benefit.

This is explained if we look at it as a policy Mexico has imported, in response to a war that is garnering enormous profits for weapons-producing countries as they offload their existing stockpiles and put their idle military apparatus to work.

The reality is a shortage of food and energy afflicting the entire world, and primarily Europe, which received gasoline, gas, and diesel from Russian pipelines that cross Ukraine supplying all of Europe and many other parts of the world. Tensions are high and the outlook for winter could hardly be worse.

Also, there is rampant speculation regarding grain and other basic foods that have become scarce. Transport costs have soared to previously unimaginable levels, negating the alleged comparative advantages of globalization. For years, classical economists insisted on the benefits of importing goods that could be acquired more cheaply from abroad and specializing in what a country was best endowed with by nature.<sup>2</sup>

Ukraine is known as the world's breadbasket, however, for more than a year has stopped producing the food it supplied to the rest of the world; this favors speculation on the leading exchanges, in Chicago and other cities, while allowing speculators who stand to benefit from the conflict to obtain massive profits.

Wall Street forecasts were recently adjusted by Barclays, which, in an October 28 press release through its chief economist David Casillas, contradicted IMF forecasts anticipating a global debacle in the years ahead. Casillas argued that we are not in a situation like 2008; there are no bank or industrial crashes or sharp drops in world economies, but rather a process of accommodation driven by

the end of globalization. It is a process of industrial and financial relocation to closer, more friendly areas (nearshoring or friendshoring).<sup>3</sup>

Based on free trade policies and globalization, for thirty-six years Mexico abandoned its food and energy sectors, and today it is paying for its neglect with high inflation, due to its high dependence on high-priced imported foods. This, precisely, is behind the surge in inflation, which reached 8.65 percent last October.

In 1994, Mexico started to abandon domestic production of basic foods and replace it with imports, mainly from the United States. The same can be said of energy sources like oil and its derivatives, in which Mexico was formerly self-sufficient. As a result, Mexico is experiencing imported inflation because free market forces produced an unmitigated failure. However, starting in 2019 the country has undertaken a reconstruction, albeit with great difficulty and moving in a direction opposite to global trends in relation to both the pandemic and the Russia-nato war, in addition to battling internal adversaries tied to international speculation and corrupt interests that have sabotaged many of the government's efforts, undertaken as part of its project of reconstruction and moral renewal of the nation.

In the area of food, against such powerful headwinds a titanic effort is needed to reverse thirty-six years of attacks on and destruction of Mexican farming, and results can be expected only in the medium and long term. As regards energy, substantial progress has been made in four years, and the government subsidy of gasoline has helped prevent the kind of inflation many countries have seen; however, such a strategy cannot be maintained much longer because the fiscal sacrifice it entails has limits and global oil prices continue to rise.<sup>4</sup>

Naturally, in addition to imported inflation, we cannot overstate the importance of internal speculation on the part of merchants and service providers who see rampant

The irrationality of capitalism was again notorious as the pandemic drew to a close, with the immediate outbreak of a new war for global hegemony. Contagion from Covid had not yet ended as the world bore witness to missiles flying and arms sales by the countries interested in war, seen as a business opportunity.

inflation as a vast opportunity to mercilessly squeeze consumers. Although they claim to accept agreements with the government, most of them see today's complex scenario as a great opportunity. Despite these challenges, Mexico has succeeded in containing inflation somewhat, although at the time of this writing, we cannot know for certain how the economy will react in the last quarter of 2022.

In conclusion, each party can cling to its preferred forecast, like the IMF's doomsday predictions regarding the uncertain outlook for 2022 and 2023. We can also consider plans put forth by the United States and Canada to form a defensive bloc against their former partners in globalization, primarily China, and integrate their economies in a North American free trade zone with an eye to addressing the problem of migration throughout Latin America. This would replace industrial plants located in Asia which today, for reasons of distance, high transport costs, and the unfavorable or the openly hostile policies they have embraced, now represent a major obstacle for both countries. Had the investments the United States made in Asia been made in Mexico or other countries in the Americas, today's economic outlook would be radically different.

The effects of this realignment are already being felt in Mexico, with companies opening facilities like the Ford plant in Naucalpan, State of Mexico. In Sonora, work is underway on a massive solar power plant operated by the Federal Electricity Commission (CFE) in the middle of the desert, where it will not encroach on communal

Based on free trade policies and globalization, for thirty-six years Mexico abandoned its food and energy sectors, and today it is paying for its neglect with high inflation, due to its high dependence on high-priced imported foods.

lands, and other industrial projects undertaken by a joint venture —with majority Mexican ownership— to mine lithium and manufacture batteries, precisely to support North American plants producing automotive components, meaning that instead of leaving the country the lithium will be processed here. All these projects are being implemented under the terms of the USMCA, negotiated to guarantee Mexico fairer, more equitable treatment than it received in thirty-six years under NAFTA, with provisions to ensure respect for Mexico's energy sovereignty, as established in the agreement's Chapter 8.

We still cannot rule out a less optimistic outlook like that predicted by Moody's and the IMF. That would result in a return to numbers and situations like those seen during the pandemic. The world economy would relapse, and GDP growth rates would return to a state of recession with inflation. I must emphasize that such a scenario would constitute an imported inflationary crisis in which external factors would again sabotage the government's policy initiatives, known as the Fourth Transformation, with the aid of its internal enemies.<sup>5</sup> **MM**

## Notes

**1** For a series of forecasts for 2022 and 2023, see the table "Latest World Economic Outlook Growth Projections," in IMF, "World Economic Outlook", July 2022, <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>.

**2** Classical eighteenth- and nineteenth-century economic theory insisted that it was better to import anything it was more costly to produce domestically. See Adam Smith, *Investigación sobre la naturaleza y causa de la riqueza de las naciones* (Mexico City: fce, 1958), and David Ricardo, *Principios de economía política y tributación* (Mexico City: FCE, 1959).

**3** Yolanda Morales, "PIB avanzó 1% entre julio y septiembre; hiló cuatro trimestres de expansión," *El Economista*, October 31, 2022, <https://www.eleconomista.com.mx/economia/pib-de-Mexico-avanzo-1-en-el-tercer-trimestre-y-liga-18-meses-consecutivos-de-progreso-20221031-0030.html>.

**4** Mexico has a trade deficit in yellow corn, beans, meat, rice, oilseeds, and wheat. This can be reversed in the years ahead only with a policy of agricultural and industrial development that makes self-sufficiency its goal. The same can be said of energy, where Mexico hopes to achieve self-sufficiency in 2023, but there are many consumer and capital goods (mainly industrial goods, textiles and agro-industrial products, iron, steel, and others) in which Mexico used to be self-sufficient but opted to import as part of its embrace of free market economics.

**5** To learn more about the social movement known as the Fourth Transformation, or 4T, see Andrés Manuel López Obrador, "Pese a obstáculos, avanza la Cuarta Transformación: Presidente AMLO; 'Se ha logrado mucho en poco tiempo', afirma," Mexican Government, <https://presidente.gob.mx/pese-a-obstaculos-avanza-la-cuarta-transformacion-presidente-amlo-se-ha-logrado-mucho-en-poco-tiempo-afirma/>. [Editor's Note]