# Elements for the Analysis of the Mexican Export Model

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## Introduction

The apparent competitiveness of "Mexican" manufactured exports has three particularities that stem from the model of export-maquila specialization the country adopted in the early 1990s: 1) the export of goods made with increasing amounts of imported inputs; 2) the resulting destruction of supply chains of nationally produced goods; and 3) the rise in productivity among exporting manufacturers based on increasingly depressed wages, that is, cheap labor. Far from creating competitive advantages, the Mexican government has not managed to design an industrial policy to support and foster nationally-owned small and medium-sized companies or to recover supply chains of nationally produced goods for the export sector. It has also failed to create a business environment to foster national investments that would make it possible to base the Mexican exports' competitiveness on greater incorporation of value added and innovation and the differentiation of products.

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This reflects the effects of radically opening the economy, which has caused de-industrialization in Mexico. For this reason, what is required is a policy that could prompt the creation of a phalanx of productive, efficient suppliers that would include nationally-owned small and medium-sized companies, thus generating a process in which the long-term objective would not only be maintaining themselves as mere suppliers of inputs, but to evolve toward becoming the manufacturers of finished products with high value added, also allowing them to supply the domestic market efficiently. In the same fashion, certain traditional productive chains should be recovered and modernized and even some new ones created, along with new markets in the country and abroad.

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## SPECIFICITIES OF THE MEXICAN EXPORT-MAQUILA MODEL

### *1) Exports Based on the Growing Importation of Inputs*

Mexico adopted a specialized export model openly based on maquila plants. This means that it is based on the growing importation of inputs. Most manufactured exports come from 300 companies, above all multinationals, and a little over 3,000 maquiladora plants, mainly in three branches of industry. This has implied that the value added in our exports is on the decline, which means that the percent of inputs imported temporarily that are then transformed or assembled and re-exported has increased. In 1993, national manufactured exports included 41.2 percent foreign inputs; 10 years later, in 2003, this proportion had risen to 51.4 percent. In the decade between 1993 and 2003, total Mexican exports that depended on the importation of inputs went from 67.7 percent to 77.4 percent, and, if we exclude oil, this figure rose from 77.3 percent to 87.2 percent.[1] That is, our country is more and more like one big maquila plant. In 15 years, we have gone from being an economy whose industrialization was based on import substitution with an industrial policy specific to those circumstances, to an economy that is de-industrializing based on the substitution of exports with national content, with no prospect of having an industrial policy to counter the inertia of the multinational corporations' globalizing strategies.

From 1980 to 2003, Mexico's "successful" export model achieved an 818 percent increase in exports (much higher than the world average, which increased 268 percent in the same period). However, from 2000 to 2003 under the Fox administration, when world exports grew 16.5 percent, Mexican exports dropped 0.7 percent, so that our participation in world exports dropped from 2.6 percent to 2.2 percent.[2]

Things were no different in 2004. Both the pattern and the tendencies remained in place and manufactured exports and imports have continued to be concentrated in a handful of large companies and a few industrial sectors. That year, inputs that represented 51.8 percent of our exports were temporarily imported, mostly by U.S. companies with plants in our country, which helps explain the high concentration of our export market in the United States.[3]

This means that today, 74.2 percent of the country's exports depend on the temporary importation of inputs. This is even more tragic if we eliminate oil, and the figure jumps to 86.6 percent.[4] Of course, this does not make for the incorporation of small and medium-sized companies in the exporting efforts as suppliers through the different sectoral productive chains. Rather, in the logic of today's Mexican export model, it has meant their exclusion and the break-up and destructuring of several national productive chains because the transnational strategy to generate global supply chains has predominated. It also confirms the maquiladora-centered nature of this export model.

### *2) The Destruction of Productive Chains and Formal Small and Medium-Sized Businesses*

The strategy of the multinational corporations has changed as a result of the market dynamic and the world capitalist system.

Previously, international corporations centered their strategies on specializing in finished products and in sectors to ensure their competitiveness in the world market. But today's globalization and competition make a pri-

VARIATIONS IN PRODUCTIVITY AND WAGES IN MEXICAN MANUFACTURING (1993-2001)

| BRANCH OF INDUSTRY | PRODUCTIVITY (%) | WAGES (%) |
|---|---|---|
| • Threads, fabrics, knits (natural fibers) | 1.94 | -1.71 |
| • Threads, fabrics, knits (synthetic fibers) | 0.98 | -2.01 |
| • Other textile industries | 1.35 | 1.45 |
| • Apparel | -3.29 | 0.92 |
| • Non-electrical machinery and equipment | 3.04 | 0.93 |
| • Electrical machinery and appliances | 4.84 | 1.31 |
| • Electronic equipment and appliances | 3.99 | 2.09 |
| • Electrical equipment and appliances | 1.43 | 2.37 |
| • Motor vehicles | 8.18 | 0.50 |
| • Auto body parts, engines and auto parts | 1.19 | 1.44 |
| • Transportation equipment and materials | 2.58 | 6.12 |

**Source:** Juan Sebastián Sombra Mendiola, "Revisión de los efectos del Tratado de Libre Comercio de América del Norte en la productividad manufacturera. El caso de México" (bachelor's thesis at the UNAM, 2004, quoted in Antonio Gazol Sánchez, "Diez años del TLCAN: una visión al futuro," *Economía UNAM*, no. 3 [September-December 2004], pp. 18-19.

ority of specializing in parts of a good. This is because today the objective of multinational corporations seeking to expand worldwide is to structure the most competitive chain of value.[5] Corporations function and orient their activities basically centering on their development and adaptation to an increasingly globalized market; this has led to a new stage in countries' concept of specialization.

To a certain extent, this may be part of the explanation of the breakdown of certain national productive chains, above all those linked to the export sector dominated in Mexico by multinational corporations. What is worse, despite the fact that on paper there is official support for small and medium-sized companies and for the restructuring of vanished or almost non-existent productive chains and the creation of new productive industrial chains, in practice, this support has not been forthcoming, thus proving that no such different strategy exists.

It is paradoxical, but it seems that some of our trade partners are more concerned than the Mexican government with creating expectations for reviving Mexican small and medium-sized businesses through the establishment of supply chains for companies that hope to set up in our country. This is the case of the European Union and, more recently, Japan, due to a trade agreement signed with Mexico.[6] These countries are supporting Mexican small and medium-sized companies with financial, technological, logistical, marketing and other resources, even if still on a small scale.

In late 2003, the then-president of the National Chamber of Manufacturers (Canacintra), Yeidckol Polevnsky, stated that it was paradoxical that although Mexico is considered one of the world's exporting powers, "[despite] good debt, [fiscal] deficit and inflation management, every day its industries lose competitiveness and ground in international markets, particularly in the market of our neighbor to the north."[7] In fact, according to Canacintra estimates, at least 6 out of 13 branches of Mexican industry have lost their place as number one suppliers of the U.S. market, and we are running the risk that in the short term, the countries of the Asian bloc, particularly from Southeast Asia, will displace at least a dozen more Mexican industrial sectors in the U.S. market. This is because in 2002 and 2003 Mexican productive sectors (textile-apparel, processed food, computers, electronic equipment and appliances) have lost ground in the United States after being in first place. According to the office of Canacintra's vice president for foreign trade, in 2000, Mexico was the main supplier of 1,336 products of the 16,357 that the United States classified in its import duty.[8]

Generally speaking, the prospects for small and medium-sized businesses in Mexico are not very encouraging. According to information from the Confederation of Industrial Chambers (Concamin), in 2003, 3,600 formal-sector manufacturing companies closed, 90 percent of which were micro- and small companies, and the prognosis does not indicate any short-term improvement, but rather the possible growth of the informal sector. In fact, It is paradoxical, but it seems that some of our trade partners are more concerned than the Mexican government with creating expectations for reviving Mexican small and medium-sized businesses through the establishment of supply chains for companies that hope to set up in our country.

estimates state that in 2003 about 20,000 tiny, "hole-in-the-wall" businesses or "*micro-changarros*" (a name invented by President Fox, which is basically just another way of describing self-employment and the informal economy) were created. In the case of the national manufacturing industry oriented fundamentally to the domestic market, the situation is no less optimistic: both the Private Sector Center for Economic Studies (CEESP) and the company Consultores Internacionales agree that commerce and services have become the driving force in the economy, accounting for 80 percent of the country's new jobs (of the 80,000 new jobs in the formal sector created in the first quarter of 2004, at least 60,000 were in retail and wholesale sales, services and construction), in contrast with the manufacturing sector which has registered a constant decline in jobs and whose productive recovery has been very slow.[9] Manufacturing's deterioration and instability have made for an increase in the service sector's portion of GDP, which now comes to more than 50 percent, while manufacturing is practically half that (about 27 percent).[10]

### 3) *Export Sector Productivity Based on Lower and Lower Wages*

Despite Mexico's apparent export boom since the signing of NAFTA, the country's export model has implied that, in addition to increasing imports of inputs to make Mexican export goods, the ability to compete in the world market, particularly the U.S. market, is based on the competitiveness of cheap labor, with the resulting effects in the national economy.

In the framework of NAFTA, several of the winning export sectors have based their competitiveness on increased productivity but more and more depressed wages. From 1993 to 2001, the increase in manufacturing productivity did not result in improved wages except in the case of apparel and transportation equipment and materials, branches of industry where there were important wage hikes over and above the increases in productivity, as shown in the table on the previous page.

Also clouding the issue of the national manufacturing sector in general and small and medium-sized businesses in particular in this overall situation are dumping, the manipulation of hard currency, contraband, counterfeit goods and junk or second hand imports (such as personal computers and automobiles), which have a strong impact on national production and on the trade balance. Apart from petty contraband (the kind that passes under the radar because it goes through customs with officials looking the other way after accepting "gratifications"), we have technical contraband which is carried out using "legal" permits thanks to the corruption not only of customs officers but also of customs agents' using their own clients' permits for illicit purposes.[11] All these practices end up disrupting entire branches of industry and productive chains, as well as nationally-owned small and medium-sized companies.

## FINAL THOUGHTS

Mexico has been considered a successful exporter on a world scale. However, the export economy has been based on maquiladoras, and until now its benefits have been limited to creating minimal value added instead of evolving toward the possibility of increasing those benefits and that value added, incorporating greater national inputs. Nothing similar to what has happened in the Asian economies has occurred since there has not been any government strategy to achieve that. Far from constructing competitive advantages, the Mexican government has not tried to design and offer an industrial policy or foster a business environment that could offer incentives to national investment, that could make it possible to base competitiveness of Mexican exports on incorporating more value added, on innovation, on differentiation and on the design of its own products.

A decade ago, a Mexican specialist observed that, contrary to the country's needs, policies had been implemented that prompted an important part of Mexican industry going from "being an integrated chain to being a series of assembly plants of imported parts" and that "as a cruel paradox, instead of making good use of the maquiladora plants to develop a competitive industry, productive chains were destroyed to turn all of industry into a maquiladora."[12] In hindsight, this situation has worsened, as this article has shown.

This is a major challenge as long as the current export-maquiladora model and the application of neoliberal economic policies centered on maintaining macro-economic stability continue. The current crisis of manufacturing and small and medium-sized businesses must immediately be turned around using other strategies. The starting point is, above all, recovering the domestic market for national companies and incorporating this business sector into supply chains and the different industrial chains (many of which have been destroyed and/or destructured) with government support for small and medium-sized businesses. To increase their competitiveness, they must be allowed to make their operations efficient, to modernize technologically, to innovate, improve products and particularly emphasize a greater differentiation of products and the creation of new products in which design is a basic element.

Partnerships and productive links could become mechanisms that would allow small and medium-sized businesses to overcome the size barrier and the limitations of their individual capacity. The task is complex and often limited by certain cultural patterns of strong individualism and distrust. In any case, it is worthwhile promoting, fostering and supporting them.

It is necessary that the internal conditions linked fundamentally to policies of governmental and non-governmental institutions in conjunction with productive sectors jointly reformulate the mechanisms and instruments with a different vision and strategies from those that have prevailed for more than two decades. This would make it possible to increase national producers' competitiveness, above all as a function of a recasting of industrial chains, taking into consideration the new conditions of the national and world economies, giving the recovery of the domestic market the importance it deserves and changing the nature of Mexican exports.

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Space exists abroad for Mexican-made goods produced by small and medium-sized companies, from those destined for the so-called "nostalgia markets" (in this case the markets in places abroad where Mexicans and their descendents live who have certain roots in Mexican traditions, or even foreigners who are familiar with and like Mexican culture) to sectors unfamiliar with Mexican culture, but in which competitive policies, publicity, quality, innovation and design can open up non-traditional markets. VM

## NOTES

1 Arnulfo Gómez R., "Comentarios sobre el Capítulo 3, 'Apertura de mercados,' del informe de la OCDE," unpublished document (Mexico City), 2004.

2 Ibid.

3 Arnulfo Gómez R., "La distribución geográfica del comercio exterior mexicano en el 2004," unpublished document (Mexico City), March 2005.

4 Ibid.

5 Luis Aguilera Enríquez, *Estrategias gubernamentales para el desarrollo económico y social en el ámbito municipal*, final unpublished report of the Center for Economic and Administrative Sciences, Autonomous University of Aguascalientes (2004), p. 29.

6 Claudia Berlanga Subyaga, "La Unión Europea y México. Programas de apoyo a las pequeñas y medianas empresas" (Power Point presentation at the 60th Annual Convention of the National Association of Importers and Exporters of Mexico [ANIERM], in Mexico City, February 2004).

7 "Focos rojos en más de 50% de los sectores productivos," *El Financiero* (Mexico City), December 31, 2003, p. 8.

8 Ibid.

9 "Se achica la industria: cierran 3 mil 600 empresas en 2003," *El Financiero* (Mexico City), April 27, 2004, p. 24.

10 "*Boom* en el sector servicios ante la crisis industrial," *El Financiero* (Mexico City), April 28, 2004, p. 20.

11 "Usurpan permisos agentes aduanales," *Reforma* (Mexico City), April 9, 2005, p. 1-A. Of 850 customs agents operating in Mexico registered with the General Customs Administration, 234 have been investigated in the last four years for irregular importation practices, while 17 percent of the customs offices in the country (around 100) rent their patents, a practice that has been prohibited. In one case documented by the General Customs Administration, a customs agent, in collusion with seven other customs agents, 12 representatives of the agents and five employees of a Puebla-based company (in this case, the company was the victim), imported textiles worth 656.5 million pesos in the name of the Puebla textile company.

12 Alejandro Castillo, "Maquilas o proveedores estratégicos," *Expansión* 69, November 9, 1996, www.expansion.com.mx/buscar.asp