IMF Promises Mexico A 'Bailout In Advance'

by Rubén Cota Meza

"Mexico will find itself in a situation similar to that of Argentina, if Congress refuses to approve this tax reform," declared Guillermo Ortiz, president of Mexico's Central Bank, on a prominent radio program on Nov. 5. Ortiz was referring to the new law President Vicente Fox's government had sent to Congress, which would impose a new, 15% Value-Added Tax (VAT) on food, medicine, and education. Through it, the government hopes to obtain 120 billion pesos more in revenues (some $13 billion). Legislators from the opposition parties and the government's own National Action Party (PAN) have rejected the proposal.

Ortiz's statement was a crude attempt to pressure Congress with the specter of an Argentine-style default, but that "specter" is already a reality in Mexico. Exactly as is happening in Argentina, Mexico's tax revenues are falling in tandem with the collapse of the economy. Revenues from existing VAT taxes were 2.9% less this September than a year ago. Tax revenues from the state companies were down by 6.1%, and tax revenues from imports collapsed by 27.8%, as imports fell by 11%.

In response, Treasury Secretary Francisco Gil Díaz announced that another $370 million in federal expenditures would be cut, in order that the deficit not exceed 0.65% of GDP, in Mexico's version of Argentina's zero-deficit policy. This was the third budget cut of the year, bringing total cuts to $1.45 billion—and Gil Díaz warned of yet another cut.

Meanwhile, the Treasury Department reported that GDP was flat in the second quarter, and fell by 1.6% in the third quarter. Industrial production fell by 5.4%; services, by 0.4%. Exports to the United States (which are 90% of Mexico's total exports) collapsed by 13.3%, and those to Canada by 18.3% in September, below August levels. Income from crude oil sales to the United States was down by $1.679 billion in the first ten months of 2001.

The *maquiladora* cheap-labor assembly "industries," the "flagship" of the economic model imposed under the North American Free Trade Accord (NAFTA), which had grown at a rate of 10% per year since 1994, cut production by 11.8% in the first nine months of the year. Some 150,000 *maquila* workers were fired, more than 10% of the total employed in the sector. The *maquiladoras* account for 48% of Mexico's exports, but the impact of these cuts is far greater than upon exports, as the economies of some cities along the U.S. border are 70% dependent on the *maquiladoras*.

In the face of this desolate panorama, the International Monetary Fund (IMF) stepped up its pressure on Mexico to accept a contingency credit line of more than $16 billion, made available as a shock-absorber only to "well-performing" economies. The IMF set up the contingency credit facility three years ago, and elected Mexico as the country to receive one. The previous Mexican government, that of Ernesto Zedillo, refused the credit because "it was not necessary," and because "it would send bad signals to the markets."

Now, the IMF insists that Mexico should accept this new "financial armor." In April 2001, Treasury Secretary Gil Díaz reported that Mexico had again received an IMF "offer" that it use this refinancing. On Nov. 18, at the IMF Ministerial meeting held in Ottawa, Canada, IMF Managing Director Horst Köhler reiterated that Mexico "could have immediate access" to the credit line.

Claudio Loser, IMF Western Hemisphere director, stated the Mexican Congress's approval of Vicente Fox's tax reform "is not a condition for the credit line to be approved," although he emphasized its importance. Loser made reference to ominous future "requirements" for more resources to meet "the demands of the coming years . . . in terms of certain payments and the bank bailout."

'Full Throttle Into The Iceberg!'

The IMF's anxiety to provide "financial armor" to Mexico is increasing, in recognition of the growing pressures in Mexico for the country to abandon the free-trade model, and focus its efforts instead on "reconstructing" a domestic market.

Yet, President Fox stubbornly insists that "we will not vary our course, because this is not by caprice or ideological stubbornness." Business leaders during August and September, began insisting that Mexico precisely needs to "change course." Fox claimed "changing the ship's course is not easy," The pressure has not eased, however. Fernando Correa Mena, president of the National Association of Mexican Importers and Exporters (ANIERM), pointed out on Nov. 15 that "under NAFTA, imports have been promoted more than exports," nor did the free-trade agreement with the European Union create an export market: "More was exported to Europe without the treaty, than under this one." He added that unemployment is 22%, not the official figure of 2.9% [!], "and it is clear that the economic contraction is not the result of the Sept. 11 attacks, but that it began in the last quarter of 2000."

But Fox's government is clinging to the *Titanic*. In the 28th National Convention of the Maquiladora Export Industry, Undersecretary of Economics Rocío Ruiz Chávez proclaimed that "the *maquiladoras* will continue to be the axis of economic development." Labor Secretary Carlos Abascal Carranza also defended the slave labor of the sweatshops as a "model of the new culture of labor," and said that the government will now reform federal labor laws to eliminate excessively "rigid" requirements for hiring labor and paying employees, changes he called "vital to attract investment."