Deconstructing the Neoliberal Promise of Prosperity and Stability: Who Gains from the *Maquiladorization* of Mexican Society?

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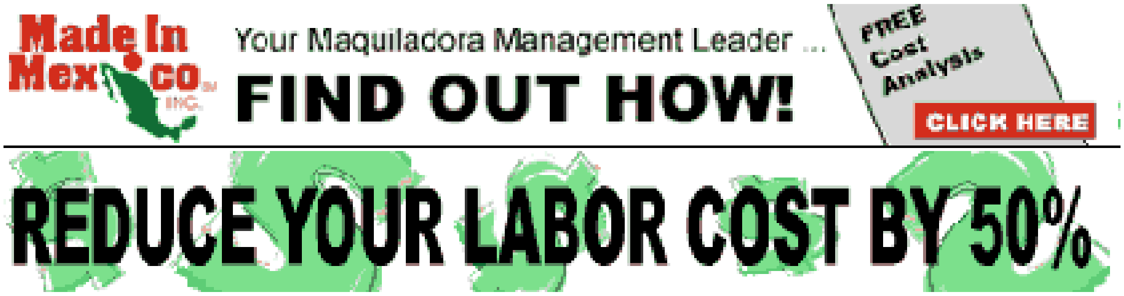

Introduction

After the 1982 debt crisis, the political and economic elite of developing countries began to embrace the export promotion industrialization (EPI) scheme as the only viable way to overcome economic stagnation and high levels of external indebtedness. Largely influenced by the International Monetary Fund's "austerity programmes", the transition to EPI has involved a fundamental reorganization of state-society relations characterized, *inter alia*, by radical liberalization of trade and finance, privatisation of public enterprises, de-indexation initiatives, and a drastic reduction in social spending. The neoliberal logic running through the EPI project was that the medium-term pain associated with this restructuring was necessary to achieve sustained growth and prosperity for society as a whole. The basic objective of this article is to critically examine this claim.

When looking at the Mexican case, there is no doubt that the rich have gained from the EPI accumulation strategy. To be sure, there are more millionaires in Mexico today than before the debt crisis. These numbers are overshadowed, however, by swelling poverty rates, which according to government statistics are around 54 per cent of the population (SEDESOL 1999). In what follows, I suggest that the EPI strategy was a class-based project aimed at re-integrating Mexico into the world market on highly unequal terms--or, what I call the *maquiladorization* process (Kopinak 1994; Hart 1995). "Maquiladorization," as it is used here, refers to the persistent internationalisation of labour whereby poorer countries use their competitive advantage of surplus cheap labour to re-cast themselves as export-platforms for the core states. The upshot of this is that the workers in the peripheral countries like Mexico are not only becoming poorer but also are forced into the informal economy, which, according to the International Labour Organization, is expanding at a rapid pace (Altvater 2002).

To understand who benefits from the maquiladorization of Mexican society, we need to know more about how and why this phenomenon emerged. To facilitate this inquiry, the paper traces the general transition of Mexico's mode of capital accumulation from its import substitution industrialisation (ISI) scheme to an EPI strategy. The discussion now turns to an overview of the economic and political contours in Mexico leading up to the debt crisis.

Contextual Considerations of the Breakdown of Mexico's ISI

Mexico's ISI pattern was characterised by capital-intensive production primarily for domestic consumption, high forms of protectionism,1 and heavy dependence on both technology and foreign investments. This accumulation pattern was accompanied by a developmental state, whose material and ideological bases rested upon the so-called "Revolutionary Myth."2 Essentially this myth was aimed at the then powerful national bourgeoisie and influential labour sectors, who were integrated into the state in a tripartite set-up. The political form of the Mexican capitalist state was characterised by an authoritarian regime that was based on the one-party control of the Institutional Revolutionary Party (PRI), corporatism, high levels of state ownership in strategic activities in such areas as communications, petroleum and basic petrochemicals, railroad transportation, and banking. Taken as a whole, these characteristics permitted the government not only to act as regulator and employer**,** but also as direct investor. Cheap and abundant labour and credit, subsidised goods and services, lax taxation standards, and so forth provided the developing industrial sectors with key inputs at low and stable prices.

Owing to Mexico's highly exclusionary capital-intensive industrialisation, corporatism was, and still is, an important facet of the form of political domination in Mexico. As Diane Davis explains, through corporatist structures3 the PRI not only separated subordinate classes from each other, but also linked them to the state in ways that undermined their independent capacities for struggle against capitals or the state. Mexico's corporate political system helped to provide the institutional and ideological glue for pacts between the state, capital and workers (both urban and rural). This arrangement gave voice and power to capitals by bringing them into the political sphere. It further acted to legitimise the demands of the subordinate class and thereby limit inter-class conflicts (1993: 66).

The ISI came into crisis by the mid-1970s. The crisis manifested itself by the precipitous drops in oil revenues, growing levels of unemployment, spiralling inflation,4 rising debt-to-GDP ratios, balance-of-payment problems, massive migration to the urban areas, and capital flight. For the Mexican state, this meant the loss of political legitimacy and social cohesion brought about by increased amounts of pressure to accommodate the contradictory needs of working class and capitalist interests. While labor was demanding material concessions in the context of deteriorating working conditions--it should be underlined that the more vocal sections of the working class were the relatively well-paid, unionised workers concentrated massively in state industrial sectors5--the bourgeoisie was demanding that the state refrain from its heavy involvement in the economy as witnessed by the high levels of public ownership. Capitals, which saw labour as the primary impediment to profitable accumulation, lobbied hard for the elimination of state price-controls; this meant the removal of a desperately needed cushion for low-income labour in a period of escalating inflation.

The government attempted to mediate these conflicting demands between labour and capitals largely by increasing its spending. By 1981, the state had contracted a substantial amount of external debt, the majority of which was held in the form of short-term loans (IMF 1983: 1). Mexico's problems were compounded by the sudden and substantial surge of capital flight, which had its roots not only in the deteriorating Mexican economic situation, but also in the U.S.'s sudden move to hike up its interest rates.6 The U.S. government sought to implement a deflationary policy to fight the rising price levels, or inflation. A deflationary policy entails a rise in interest rates in order to make credit more costly. In doing so, the central bank seeks to dampen both bank lending and consumer spending. High interest rates also have the added feature of attracting short-term capital flows to the country. For Mexico, the effects of high interest rates had two serious consequences. First, capital flowed north as opposed to south. Second, the interest payments on the Mexican debt increased exponentially. As is common to herd behaviour, the slow trot of capital moving out of Mexico to the U.S. quickly turned into a stampede as investors began to lose confidence in the peso. Since the climax of this tale is well known, I will only provide some highlights. In the summer of 1982 the Mexican government shocked the financial world by threatening default on its external debt service payments. The U.S. government, acting as the international lender of last resort (for U.S. banks), re-negotiated Mexico's external debt with the first among many "unprecedented"7 bail-outs by the International Monetary Fund (IMF). The 1982 debt crisis marked the start of the country's general re-orientation from its ISI model towards an EPI strategy. This transition was supported by new neoliberal tactics adopted by the Mexican government, which may be broadly subsumed under the term "debt as social discipline."

Debt as Social Discipline and Its Contradictions

The strategy of debt as social discipline stands on two legs. The first deals with the relations between the U.S. and Mexican governments. The second leg entails relations between the Mexican government and society. In what follows, we will consider each relationship in turn.

In accepting the IMF bailout the government also had to embrace the Fund's structural adjustment programmes (SAP),8 which champion the adoption of neoliberalism (privatisation, liberalization, flexibilization).9 The key motivations for the U.S.-led restructuring were twofold. First, the U.S. government, acting on behalf of its capitals, had a vested interest in ensuring that the Mexican government implemented "sound" economic policy. Washington assumed that through the adoption of neoliberal policies embodied in the SAPs that Mexico could obtain hard currency (i.e., the Greenback) not only to pay off its debt but also build up enough reserves to survive the next external shock. Second, the U.S. government also had vested interests in maintaining a stable world economy. As Peter Burnham notes: "[t]he successful reproduction of accumulation within national state boundaries is premised on the reproduction of accumulation on a global scale" (Burnham 1995: 109). What is more, a neoliberal Mexican government would serve as the pin-up economy for the twenty odd other countries that entered into payment default during this period.

It would be a fallacy, however, to conceptualise the relations between Mexico and the U.S. as the latter imposing its will on a powerless peripheral state. This perspective fails to grasp that capital interests transcend national boundaries. For instance, similar to the American bourgeoisie, the more powerful, transnational Mexican capitals were actively endorsing the implementation of SAPs to assist in disciplining labour so as to move more rapidly to an EPI mode of accumulation. Indeed, Mexico's deeper economic assimilation with the U.S. promoted the concentration and international expansion of Mexico's indigenous (transnationally-oriented) capitals by linking them with the internal reproduction of U.S. capital (Poulantzas 1974). Hence, the presence of transnational capital within the Mexican state does not impair its power, for it takes "charge of the interest of the dominant [U.S. American] capital in its development within the 'national' social formation, i.e., in its complex relation of internationalisation to the domestic bourgeoisie that it dominates" (Poulantzas 1974: 73).

This is readily observable by looking at the way in which the Mexican state legitimised its actions through IMF conditionality, particularly its SAPs. In what follows, by exploring the ideological and policy aspect of this issue, I suggest that these austerity measures were used as a template to navigate difficult waters between the demands of capitals whilst disciplining labour, which was seen as the main impediment to profitability. In terms of ideology, the Mexican government embraced monetarist ideology, which was one of the main pillars of neoliberalism in the industrialised world, and which was the foundation of the IMF's SAPs. The ideology of monetarism proved to be quite useful in de-classing and de-politicising the highly class-based struggles involved in the shift from an ISI to EPI model. As Simon Clarke notes, a key tenet of this ideology held that the old ways of the corporatist state were seen as penalising success and rewarding "failure as it took away from the minority who have been successful in order to compensate those who have fallen by the wayside. Whether through taxation, public borrowing or inflation, the state appropriates and redistributes resources according to its own political priorities, and the more it spends the more it undermines the incentives and the individual freedom of the market" (Clarke 1987: 401-02). As such, the ideology of monetarism legitimised the slash-and-burn tactics vis-à-vis the already dismal levels of social welfare, privatisation schemes, deregulation, and so forth.

The policy side of debt as social discipline echoed the Fund's SAPs and its insistence that the only way to ensure required levels of new foreign investment was to (re-) allocate resources in accordance with global market signals, such as prices, exchange rates and incomes (Bienefeld 1993). In reality, Washington's understanding of policy reform (cf. Williamson 1990: 5ff.; IMF 1983: 2) was not aimed at restoring development, but increasing debt service capacities through export expansion and import compression, so that the overextended U.S.-based banks could be repaid (Kapstein 1994). In this sense, the SAPs, which emulated neoliberalism, were highly successful in sustaining large "net resource transfers from many developing countries to the developed world" (Bienefeld 1993: 4).

Tight fiscality (read: substantially less government spending) was a key policy weapon used to discipline the Mexican social relations of production. Labour, including indigent groups of society (who work in the so-called informal economy), was directly affected by the cut in government spending since social and health programmes were substantially slashed. For the petit bourgeoisie and uncompetitive capitalists who were still committed to the ISI model, tight fiscality translated into the reduction in traditional subsidies, especially in urban centres. What is more, the cosy relations between banks and businesses that were possible when the economy was healthy gave way to more market-dominated lending. Unsurprisingly the old vested interests in the state were quite reluctant to give way to neoliberal restructuring. These interests included, for example, indigenous agricultural and industrial capital interests who produced consumer durables and non-durables for the domestic market, as well as oligopolistic sector of finance capital.10 Aggravating their discontent was the huge amount of foreign capital investment that the Mexican government was helping to usher into the country by various luring devices, such as low taxation, easy credit conditions, cheap labour and resources, and so forth. In doing so, the Mexican state was assisting the ascendancy of both the economic and political power of transnational capitals. The government was not only facing intra-class conflicts between the old and new bourgeoisie, but also the implementation of neoliberal based SAPs was eroding the PRI's traditional bastions for support, such as state-subsidised unions--especially the CNC (peasantry) and CTM (workers). Indeed, two unions on which the PRI was particularly dependent in legitimately pushing through its economic reform package.

As capital investment began to shrink, particularly in the form of capital flight, skyrocketing inflation rates, and heightening class struggle, the IMF argued that the Mexican government had no other alternative but to strictly adhere to its policies of tight fiscality.11 The solution was class-based in nature. In effect the government implemented two *de facto* versions of structural adjustment: one for labour and one for capitalists. Labour was disciplined to accept the new conditions of competitive austerity via a drastic cut in their standard of living, while the bourgeoisie was assisted to make the transition to EPI. Although the general strategy of competitive austerity was adopted by the Mexican state, the greatest political utility of the IMF's policies was (and still is) their ability to facilitate the introduction of neoliberalism by justifying and deflecting the class-based agenda of the Mexican government.

To throw more critical light on this agenda, it is helpful to take a closer look at the changing configurations of power between political and economic elites within the state. This reconfiguration of class alliances in the state was, of course, a moment of the wider economic restructuring associated with the shift from an ISI to an EPI accumulation strategy. As noted above, the transnational bourgeoisie were tightly linked to the EPI, and their growing presence was echoed in the attitudinal shift from protectionist-oriented policies to the stance of openly inviting foreign capital into Mexico. Foreign capitals, who were previously constructed as the populist scapegoats for Mexico's underdevelopment, were now ideologically packaged and sold as Mexico's benevolent and necessary partners in the uphill battle towards sustained economic growth. In making this political U-turn, the state effectively dissolved a major and highly visible facet of Mexico's Revolutionary past, most notably the Mexicanization policy and high levels of public ownership in key economic sectors. Although this move clearly appeased the new social relations of power, it would prove to be a major political obstacle in terms of maintaining legitimacy whilst instigating neoliberal reform.

One immediate difficulty for the state was it was required to fulfill two contradictory roles in order to guarantee the stability of capital accumulation. First, the state needed to attend to the demands of capitals. This was particularly true of those who were clamouring that there was too much state intervention. Based on the "crowding out principle", their argument was that state ownership and control posed a substantial threat to the efficiency of the market forces. They also argued that "big government" would jeopardise Mexico's status as a preferred business site. Yet, at the same time, these capitals were demanding that the state continue its side-deals of easy credit access, low rates of taxation, subsidised goods and services. Second, to attract much needed capital investment, the government had to encourage a semblance of political stability. To this end, the government not only had to deal with the rising tide of social discontent from the working class, but also had to discipline labour to accept the "new competitive reality", namely: to work more for less. The next section examines this contradiction in more detail.

The Contradictions of Debt as Social Discipline

The Mexican state tried to deal with the above paradox in several ways. First, backed by the IMF, the government implemented substantial currency devaluations. The lower peso, of course, meant the value of Mexican labour and natural resources would tumble to bargain prices. Peso devaluation also led to Mexico's further economic integration with the U.S., as many Americans rushed to set up (sweat) shops or take over existing companies. Indeed, currency devaluations became Mexico's *de facto* competition policy to entice American foreign investment. Secondly, and despite the rhetoric of tight fiscality (government spending) espoused by the IMF, the government continued to rely on brokerage politics. The state funded these activities through domestic borrowing, the outcome of which involved Mexico's growing external debt. At the end of 1981, for example, the foreign debt was registered at U.S. $75 billion (45 per cent of GDP), whereas by the end of 1988 this grew to U.S. $101 billion (57 per cent of GDP). Indeed, the public sector external debt increased from some U.S. $53 billion at the end of 1981 to U.S. $86 billion by the end of 1988 (IMF 1992: 10). The question that arises here is, who was on the receiving end of all this fiscal spending? Most of this money (or better yet, credit) was channeled into programmes whose main aim was to appease capital interests, such as the private debt-recycling programme in 1983 known as the Foreign Exchange

Protection Trust Fund (or, *FICORCA*). Briefly, this scheme allowed private firms to purchase U.S. dollars at a price below the free market exchange rate to meet interest and other foreign debt payment obligations (Banco de México 1984: 32-35). *FICORCA* was employed by the government to restructure the private sector with foreign commercial banks (covering the private external debt of approximately U.S. $11.5 billion) (Banco de México 1988: 50). More recently this exercise in the socializing of private debt was repeated in the scandal surrounding the fraudulent activities of various individuals involved in the Banking Fund to Protect Savings (*FOBAPROA*) (*La Jornada*, July 20, 1999: 5).

The third contradictory feature of the debt as social discipline strategy was extremely high interest rates. High interest rates attract capital into a country. As I stated earlier, by controlling the cost of money (interest rates) central banks seek to influence economic growth. The contradiction then is between attracting capital inflows whilst dampening economic activity. From 1980 to 1989, Mexico's interest rates were modified on a weekly basis. During this period the rate seemed to rise steadily to the point of historical highs hovering around the rate of inflation itself (Méndez 1994: 247; Huerta 1994). Who benefited from these high interest rates? The annual inflation rates of above 60 and even 100 per cent served to push interest rates over 100 per cent to allow for a profit margin for both savers and the banks. Yet, it was clear that neither Mexican farmers nor small and medium-sized businesses received anything in terms of the benefits of speculative activities. To be sure, these people found it difficult to meet their loan payments, never mind arranging more loans with such high interest rates.

To deflect the political discontent with the ever-increasing interest rates, the government attempted to rationalise its position by playing up the limitations of its policy choices within the larger SAPs. While the Bank of Mexico freely admitted that lowering interest rates could play a role in reducing the public deficit and stimulate the economy, especially in terms of redirecting investment into less speculative venues (financial markets), the Central Bank remained true to IMF orthodoxy that the relaxation of interest rates would most certainly trigger capital flight -- which, in turn, would result in another economic crash. Official arguments and scare tactics aside, high interest rates discipline labour to bend to the dictates of the market, especially by doing away with previous state forms of protection against rising inflation. This becomes evident when we consider the abandonment of indexation. To re-gain the trust of its creditors and potential investors, the government cancelled its indexation policy (universal subsidisation) at the beginning of 1987. As a result, wages were not brought up to par with the levels of inflation. The buying power of the minimum wage fell by some 40 per cent between 1980 and 1987, which strongly reveals that the impact of the economic crisis in Mexico fell most heavily on the working population. This move was clearly intentional, since labour was seen as the basic impediment to higher levels of profit (MacEwan 1990: 26). Not surprisingly, a massive strike movement and increasing protests for a real wage increase greeted this move. The government eventually conceded to raising the minimum wage, an increase that amounted only to a fraction of what labour was demanding. At the end of the day, however, the tactic of disciplining labour was victorious through a price increase of basic foodstuffs, which, in effect, left labour worse off than before the strike waves.

The fourth contradictory aspect of debt as social discipline emerges in the government's privatisation schemes. To illustrate, between 1982 and 1990 the government sold or closed 37 per cent of these enterprises as part of its economic liberalisation strategy, thereby effectively losing 14 per cent of the GDP and 30 per cent of gross fixed capital formation (Jenkins 1992: 172). Many authors speak of the privatisation schemes being tantamount to the erosion of state powers. It will be recalled, however, that high levels of public ownership reflected a particular configuration of social power relations tied to an ISI mode of accumulation. With the materialization of an EPI strategy and the growing power of transnational capitals, new forms of political domination over labour would also surface. Debt as social discipline was an expression of this new political domination crafted to regulate new forms of exploitation (embodied in the EPI strategy). One way this manifested itself involved pushing large numbers of state workers outside the ambit of the political system towards the economic realm (i.e., the sphere of capital valorisation). A large part of labour now found itself outside the boundaries of state unions. This did not involve less state, as scholars who write on privatisation suggest. Instead, with a larger number of workers directly outside the realm of state control (i.e., the public unions), debt as social discipline was accompanied by increased forms of physical coercion, which would prove costly to the PRI in terms of political legitimacy. The government, for instance, found it increasingly difficult both to package their restructuring policies as in the interest of *all* Mexicans and to sell these policies as truly "market-driven." Yet the privatisation strategies possess a built-in contradiction. On the one hand, this form of state intervention is directly designed to discipline labour while meeting the demands of capitals, and in doing so, forge new ways of managing state-labour relations. On the other, by building new methods of mediating class struggles, the state effectively pries open new spaces for struggle.

In 1983, for example, there was an increased manifestation of discontent by Mexican peasants in reaction to the government's implementation of an agrarian reform law, which axed a key anti-poverty programme, namely the Mexican Food System (*Sistema Alimiento Mexicano*, or SAM). Largely owing to past policy choices--particularly the U.S. inspired "Green Revolution" projects--Mexico was importing more than $ 1.5 billion of its basic foodstuffs by the early 1980s. Within the larger framework of debt as social discipline, the basic motivation behind the new agrarian reform law was symbolically and politically to sever the social compromise between the state and peasantry. To accomplish this, the government attempted to change the state's relation to the peasantry: devolving state responsibility to the peasantry from national to local levels while, at the same time, driving them further into the private realm (commercial farming).

Far from achieving the desired effect of silencing the peasantry, however, the decentralization processes seemed to work in their favour. The local level allowed for easier co-ordination among various groups and thus a more efficient manner of organizing and mobilizing protest. Again, the contradiction in privatising the social relations of production led to the creation of new spaces of struggle that were mobilised around the rejection of any form of direct state mediation.[12]

The Neoliberal Strategy of Continental Rationalisation

Despite the state's attempts to discipline its social relations to embrace the EPI strategy, the levels of capital investment, particularly FDIs, were far from sufficient. This was largely due to external forces, especially the rise of U.S. protectionism.13 This strategy was aggravated by growing budget and trade deficits in the U.S. as well as the steady devaluation of the peso. To overcome this protectionism, Mexico signed an agreement to become a member adhering to the regulations put forth in the 1986 General Agreement on Tariffs and Trade (GATT). Ironically, this move to liberalise its trade occurred during a time when the majority of advanced industrialised states were busy constructing protectionist barriers (IMF 1989: 331). It should thus not come as a surprise that in the same year that Mexico signed the GATT, the government also penned its name to a letter of intent requesting another "unprecedented" 18-month stand-by arrangement with the Fund for the amount of 1.4 billion SDRs (Special Drawing Rights) in order to support of a comprehensive program of adjustment and structural reform (IMF 1986: 225). In response to this, the Mexican government promised to further deregulate its trade and financial sectors.

Financial deregulation was targeted at moving the country closer to the U.S., which inevitably meant securing more capital inflows. One year before NAFTA was signed, the Mexican government broke with its fixed exchange rate regime and introduced a target zone in 1991. The U.S. policymakers, including the IMF, argued that this bilateral move would increase the market's role in setting the peso's exchange value (through the magical forces of supply and demand) within a relatively wide, but firmly bounded, exchange rate band. This target zone, which was backed by the U.S. government, represented an attempt to lend credibility to the contradictory strategy of currency devaluation while at the same time maintaining high interest rates. In economic theory, a currency remains low due to little demand in the foreign exchange markets. On the other hand, as we saw earlier, the Central Bank increases interest rates when it wishes to slow economic activity by reducing bank lending. The question that must be asked here is, if the economy is merely puttering along, why continue to choke it? The answer is that powerful interests are served by this policy. As we saw earlier, the low peso was part of Mexico's competition policy. Its high interest rate policy was part of disciplining the lower echelon of society, while ensuring that the top echelon was on the receiving end of large amounts of capital inflows that were lured in by high short-term interest rates. The name of the game was to attract the large sums of private capital flows that were pulsating through the international markets during the early 1990s. Taken together, Mexico's good track record of implementing neoliberal reforms plus its high short-term interest rates made it one of Latin America's largest recipients of capital inflows when an excess amount was gushing towards the emerging markets during the early 1990s. These flows, the majority of which was "hot money" as opposed to the more stabile FDI, took the form of bonds, whose maturity was very short (around 4 years) (Griffith-Jones 1996). From 1990 to 1993, for example, Mexico's stock market rose 436 per cent (Strange 1998).

Since these large inflows of short-term foreign portfolio investment (stocks, bonds) were not invested in Mexico's productive sphere but instead entered the country to exploit interest rate differentials, they "invested" in the Mexican stock market (or, Bolsa) as opposed to new factories, technology, etc. As such, this "hot money" was not only unproductive, but also high risk in that it could suddenly bolt out of the country once interest rates became more favourable elsewhere. Put another way, once the international economic environment changed, Mexico would lose these investments (overnight). There were two salient factors that point to the inevitable peso crash in December 1994. First, the Mexican state needed to keep its interest rates well above the international rate (read: U.S. rate). For the time being, this exercise would prove relatively easy as most OECD countries were pursuing lax monetary policies in the attempts to move their economies out of the recession. Second, the important signaling feature of political stability was questionable. This posed a serious threat to those who were providing the lifeblood to the Mexican economy, namely foreign investors and creditors. It is interesting to note that a large part of this social unrest was due to the waning levels of political legitimacy brought about by the neoliberal SAPs, especially the combination of a low peso and high interest rates.

The Neoliberal-Led *Maquiladorization* of Mexican Society

Since state intervention is historically determining and developing, the next policy response grew out of the above-mentioned contradictions within the debt as social discipline strategy. Two immediate problems of the state were the unstable economic situation and the growing social unrest. First, to tackle the waning levels of legitimacy surrounding neoliberalism, the state sought to recreate neoliberalism by implementing what the then President Salinas termed *social liberalism*. Second, to ensure the continued inflow of capital, the state actively pursued deeper forms of economic integration with the U.S. In particular, Mexico was seeking to formally lock-in U.S. economic commitment by way of a trade pact. Taken together, these social and economic policies targeted at further economic integration are captured by the notion "continental rationalisation." As we will see, a key aspect of this latter notion is the maquiladorization of the social relations of production. Each solution will be considered in turn.

Adhering to the basic principles of the "third-way," *social liberalism* aimed at avoiding the failures of unfettered, free-market capitalism and heavy-handed state intervention. In reality, however, the rhetoric of *social liberalism* was simply an exercise in social engineering, designed to deflect the ongoing government involvement in the reorganising of the social relations in the interests of transnational capitals. The Mexican government sought to reinvent neoliberalism with such slogans as "coming together" (*concertación*), as well as the chant of "restructuring or adjustment with a human face" (*ajuste con rostro humano*), which was lifted from the Clinton Administration. The government had hoped to portray itself not as a distributor of last resort, but instead as a team leader who would guide Mexicans in the new competitive race (to the bottom). Put another way, the state was to be seen as a benevolent actor, who, despite all restrictions placed upon it by the IMF and the all-powerful global financial markets, would assist Mexicans in dealing with the "new competitive reality." Since a "credible" investment environment is premised on political stability, the government implemented two key programmes aimed at appeasing and depoliticising the resurgent popular movements. From 1987 to 1988, economic policy followed the guidelines contained in the PSE (Pact of Economic Solidarity), which was a "kind of truce imposed by the elections and had the obvious purpose of winning votes" (Álvarez and Mendoza 1993: 34-36). The government continued this programme of wage and price controls with the implementation of PECE (Pact for Stability and Economic Growth). This programme was implemented in 1988 with the sole aim of depoliticising the demands of labour.

PRONASOL (the National Solidarity Programme) was the second programme of social liberalism. Essentially, *PRONASOL* was aimed at eradicating extreme poverty and better integrating the poor into the process of economic recovery (IMF 1992: 8). PRONASOL was created to address the demands of the mounting numbers of poverty-ridden sub-employed or underemployed Mexicans, as well as the interests of the middle classes, who were also largely affected by the restructuring processes within the economy. Initially run directly from the President's Office, PRONASOL channels various sums of money for cheap food, loans to peasants and women's micro-companies, funds for schools, university scholarships, property titles to urban squatters, construction of hospitals and funding infrastructure projects (roads, electrification, dams, draining of lakes, etc.). This so-called *anti-poverty* programme was not intended to correct the socio-economic injustices of the market; rather, it was a political reaction by the state to the rise of social discontent associated with capital restructuring. It essentially served the purpose of affording the PRI some votes: "through its *decentralising* methodology the *participatory* character of these projects was promoted--projects virtually creating the necessary infrastructure paving the way for modern capitalist development in accordance to NAFTA, whereby poor peasants and workers are forced to work at a minimum cost to the state, thereby temporarily alleviating the most painful consequences of capitalist restructuring repression" (Katarina 1997: 18). PRONASOL was both an appeasement of and a form of social control over the majority of the population. As such, it functioned to keep these groups integrated within the wider social relations of production by bringing them into the political system and thus de-politicising their activities.

Nevertheless, it remains questionable if the diminishing political legitimation of the PRI can be stabilised and reversed through such neoliberal workfare tools such as PECE and PRONASOL. During Salinas' *sexenio* (6-year term), spending on Solidarity rose more rapidly than total federal government investment, by an increasingly large margin" (Cornelius *et al.* 1994: 8). Despite this, struggles against the effects of neoliberal restructuring, such as the Zapatista uprising on January 1, 1994, continued to intensify. During this period, inflation skyrocketed from 7.0 per cent in 1994 to 50 per cent in 1995, and the peso plummeted from $3.50 per $U.S. in November 1994 to $8.00 a year later. This resulted in a devaluation of 128.6 per cent (Méndez 1994: 372). To complicate matters further Mexico's balance of payments had been in the red since 1989 (i.e., its imports were higher than its exports). At the same time, both its private and public external debt burdens continued to climb. When the peso crashed in December 1994, the U.S. authorities pumped billions of dollars to help keep the Mexican currency value within the pre-established target zone, and thereby mitigate investor fear and capital flight from Mexico. The IMF also came to the rescue by doling out $U.S. 17.8 billion to

Mexico--equivalent to an unprecedented 688 per cent of Mexico's quota in the IMF--to support another "unprecedented" adjustment programme. The Fund rationalised this move by stating a familiar stance. That is, Mexico's stabilisation programme would lay the groundwork for further progress on structural reform once stability is restored (IMF 1995: 33).

The IMF did not mince its words when it came to what structural reform entails. According to the Fund there was only one way that the Mexican economy could re-gain credibility in the eyes of the international financial community: the adoption of the U.S. labour market model (IMF 1994: 156). This model would further limit the bargaining power and rights of Mexico's unruly workers. Because there was no contradiction between the Fund's suggestion and the interests of Mexican big capital, the government immediately set out to overhaul its Labour Laws.14 These reforms championed even harsher forms of control over workers, which were implemented to facilitate continental rationalization. That is to say, to transform the Mexican economy into an export-platform to the U.S. In the words of the IMF, "NAFTA is really about capital movements, transfer of technology, and location of production" (IMF 1993: 18-19). Even so, at the heart of the collaboration between the U.S. and Mexico governments beats the impulse to provide the most optimal credible investment environments so as to compete against each other for the attraction and maintenance of capital investment and market shares (McConnell and MacPherson 1994). For example, although it is believed that the country will experience an increase in exports amounting to U.S. $20 billion over ten years after the signing of the trade agreement, this amount will be almost matched by increases in imports from the U.S..

Mexico's maquiladorization of its social relations was (and still is) two-pronged. The first facet constitutes the nature of Mexico's economic integration, which has been characterised by a *maquiladorization process* or, more plainly, de-industrialisation. As Kathryn Kopinak has suggested, the new industries in the *maquiladoras*, which largely remain situated at the northern border, offer fewer jobs than the number lost from Mexican-owned industry and agriculture. Moreover, jobs in the *maquiladoras* are comparatively unskilled and poorly paid, which implies not only that workers have reduced purchasing power and thus increased economic inequality, but also that the internal domestic market has shrunk with the shift towards export production (1994: 150-51). Even though the *maquiladoras* have assisted in transforming the Mexican economy into an export platform for the U.S., testified to by the doubling of Mexican exports to the U.S., imports from the U.S. have at least tripled. Evidently this leads to more debt and current accounts problems, particularly since Mexico is using borrowed funds to pay for its imports. In this way, the excessive net transfer of resources abroad has made the economy extremely vulnerable to external shocks, particularly any deterioration in the terms of trade.

The second characteristic refers to the dilemma that the U.S. and Mexico are not only competing with each other in the same export markets, but also in the same capital markets. Each country attempts to provide the most optimal credible investment environments, such as low taxation and social benefits, so as to retain and attract the highest amount of capital investment possible from the international financial markets (McConnell and MacPherson 1994). Here, too, Mexico has been fighting a losing battle in the game of global finance. On the one hand, capital investment remains inadequate vis-à-vis the existing public expenditure in the economy. On the other, given the high interest rates and deregulated financial sector brought about through NAFTA, capital flows are often speculative in nature to the detriment of Mexico's productive structure. To illustrate, while FDI in actual production facilities increased by 57.6 percent from 1989 to 1993, the more mobile portfolio investment rose by more than 8,000 percent, or 86.8 percent of total foreign investment in Mexico (Pastor 1999: 213).

To signal creditworthiness to the global capital markets and to indicate that the Mexican economic policy formation was truly "outward oriented," the government anchored its exchange rate to the Greenback. In light of the above context, the upshot of this was an over-valued real peso, whose negative effects were made evident in Mexico's trade figures. Between 1987 to 1993, for instance, exports rose by a healthy 88 per cent but imports rose by an even larger 247 per cent, which translated into a trade deficit of approximately U.S.$ 13.5 billion by 1993 (Pastor 1999: 212). To finance this trade imbalance, Mexico increased its dependency on foreign capital, converting much of its short-term peso-denominated CETES debt to dollar-denominated *Tesobonos* (Mexican government securities) in mid-1994. When payments became due on most of Mexico's foreign exchange reserves, access to international capital markets dried up and the thin ice upon which the economy was running was shattered. By middle of 1995, output was running 10 per cent *below* its level a year earlier, private capital spending had collapsed and employment had declined sharply. What is more, poverty increased precipitously. According to government statistics, by the end of the 1990s, poverty rates were hovering at around 54 per cent of the population (Veltmeyer *et al.* 1996; SEDESOL 1999). All of these issues seem to throw into question the political and economic viability of the neoliberal project in Mexico.

Conclusion

The maquiladorization of the poorest country within NAFTA contains a potentially explosive paradox: On the one hand, the political and economic elite in Mexico hoped to pursue the strategy of continental rationalisation in order to overcome the barriers to capital valorisation, whose success depends on the attraction and retention of high levels of largely speculative capital inflows. On the other hand, the very nature of NAFTA, namely its tendency towards *maquiladorization* of the economy, inevitably exacerbates the already high levels of political instability and socio-economic fragmentation, and thus perpetuates the threat of capital flight and investment strikes.

I have argued that Mexico's EPI has neither led to sustainable economic growth, nor wealth for all Mexicans. In doing so, I have suggested that neoliberalism, which is the guiding ideology and policy of the EPI, is not a natural phenomenon, driven by the faceless forces of globalization but instead a class-based project. What is more, neoliberalism is neither automatic nor irreversible. Indeed, its reality is being relentlessly contested by a variety of groups and individuals who have experienced increased economic hardship not the prosperity neoliberals promise . Yet more work needs to be done on this subject in order to expose the inherent paradoxes within the dominant neoliberal framework, especially its basic assumptions that trade is based on a level playing field and that markets are a just and efficient distributor of resources. Indeed, these are the very assumptions that are justifying the continued maquiladorization of the Third World through, for example, the work of the World Trade Organization and such mega-projects as the Free Trade Area of the Americas.

Notes

1 In regard to Mexico's trading relations with the U.S., with a brief exception of a bilateral agreement under the Reciprocal Trade Agreements Program (to aid and profit from the U.S. war effort) in 1942, Mexico avoided any legally binding pacts with its powerful neighbour to the North (Hart 1990: 32).

2 Mexico's "Revolutionary Myth," or what Kevin Middlebrook refers to as "Revolutionary Nationalism" (1995), was a fusion of nationalism and a commitment to socio-economic transformation that included the following: the steady belief in the principle of the "trickle-down" theory; the acceptance of the "cruel dilemma" (that is, the priority of industrialisation/economic modernisation before democracy); the belief that the PRI and government corporatist structures represented the interests of the average Mexicans (peasants and workers), who were then seen to be the main force in the revolutionary overthrow the dictatorial regime of Porfirio Díaz (1880-1910); and the interconnected mistrust of high levels of foreign ownership. The ISI model was based on capital as opposed to labour intensive production so as to reap higher and quicker profit margins. Capitals legitimised this mode of capital accumulation by playing on the anti-imperialist sentiment of the "Revolutionary Myth," with such rhetorical programmes as the Mexicanization Policy. This requires that Mexican nationals hold majority ownership of enterprises in key sectors in the economy (see Hellman 1979: 61-2).

3 The three official unions are as follows: the National Peasant Confederation (CNC), the Mexican Workers' Confederation (CTM), and Popular Sector (CNOP). Both the CNC and CTM are usually represented by corrupt representatives called *Charros*, who are appointed by the politicians (PRI). The CNOP is comprised of middle and upper-class Mexicans and is relatively more powerful in terms of its influence on the PRI than either the CNC or CTM. Unlike the CNC and the CTM, members of the CNOP are formally incorporated into the official party.

4 Inflationary increases in terms of percentage were staggering: between 1971 and 1982: 5.2 per cent increase in 1971; 15.7 per cent in 1973; 21.9 per cent in 1974; 27.2 per cent in 1976; 29-8 per cent in 1980; and, 98.8 per cent in 1982 (Méndez 1994).

5 According to official sources, there were 57 strikes recorded between September 1972 and August 1973. From September 1973 to August 1974 this number jumped to 452 strikes. Nevertheless, in the following two years, the strikes waves decreased, largely due to concessions and state forms of repression, to around 100 strikes per year (Trejo 1991: 134).

6 Real interest rates skyrocketed from 0.8 per cent in 1971-80 to 11.0 per cent in 1982 (Helleiner 1994: 175).

7 For example, Mexico applied for and was granted additional financing by the Fund in 1986, 1989, 1990, as well as 1995. More recently, the IMF put together a substantial rescue-package for the Mexican Banking Crisis in the summer of 1999 for the wealthy bankers and financiers (see *La Jornada*, Thursday July 8, 1999, p. 18).

8 For an excellent analysis of the logic, or better yet illogic, behind these policies, see Manfred Bienefeld (1993) *Structural Adjustment: Debt Collection Device or Development Policy?* Paper prepared for Sophia University, Tokyo, Lectures on "Structural Adjustment: Past, Present and Future." mimeo.

9 The U.S. had vested interests in Mexico due to the large amounts of money of U.S. American banks in the game of over-banking (see, for example, Benjamin J. Cohen 1986 and Ethan B. Kapstein 1994). In contrast, this article goes beyond these surface arguments by drawing our attention on the less evident and more problematic question of why the U.S. government, especially through its instruments of the Federal Reserve and the IMF, sought to assist restructuring activities in Mexico by continuously pouring good money after bad into the latter country, especially after the late-1980s, when the banks slowly moved out of the "lending game", and the U.S. was left with an increased role as official creditor and lender of last resort.

10 It was not until after 1988 that the so-called Bankers' Alliance agreed to the government's neoliberal strategy (Veltmeyer *et al*. 1996: 140ff.; Maxfield 1990).

11 The IMF, for example, has suggested that the Mexican government assign high priority to the following areas: holding down current and operating expenditure; increasing productivity through the elimination or reduction of subsidies in both private and public sectors; and, cutting back the growth of the wage bill through a freeze in hiring and the pursuit of a restrained wage policy in the public sector (IMF 1983: 2).

12 In the government's attempts to neutralise and dissolve the solidarity amongst the peasants, which was a necessary precondition for any formal bilateral trade agreement between Mexico and the U.S., Articles 27 and 123 of the Mexican Constitution were amended in 1992. These changes referred to the right of the Mexican state to full ownership of strategically important areas of both natural resources and infrastructure. Article 27 took the repeal of the SAM one step further by repealing the right to possess a holding on communal land (*ejidos*). The notion of the *ejido* as a right of the peasantry,

which was won through the revolution, was now annulled. In this way peasants were now able to either rent or sell their land holdings to the private sector.

13 Between 1980 and 1986, for example, Mexico faced twenty-six U.S. countervailing duty actions, nineteen of which led to restrictive actions (see Hart 1990).

14 To illustrate, the Mexican government intended to implement the following four reforms to its Labour Law. Interestingly enough, all four points reflect the American labour market model. "First, the payment of salaries by the hour. This refers to the option that companies may pay wages on the basis of what is produced, and by the hour; not only by the week or by month. Second, the Freedom of Contract. The main thrust here is that companies should not be constrained to contract workers pertaining to a specific union. The 'exclusion clause,' which shuts out workers from a job if they do not belong to a specific union should be abolished. Third, flexibility in the hiring and firing of workers. The logic behind this reform is the removing the difficulties in dismissing a worker, because of ineptness or because his/her services are no longer required. This is perceived to be the underlying reason why many small and medium-sized companies do not contract individuals outside of a family. And, fourth, the confinement of strikes and work stoppages only by the strikers. Following the U.S. model, other workers should not be compelled to stop working, nor the company, from hiring other personnel" (Pazos 1993: 284-285).

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