

China hurting Mexico

Manufacturing, jobs shifting to new continent

Chris Hawley

Republic Mexico City Bureau
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MEXICO CITY - Surrounded by military equipment and flags, Florentino Casas Pérez looked over the counter of his army-navy store and bemoaned the latest invasion of Mexico.

"The Chinese merchandise is everywhere," he said, and pointed toward the sea of street vendors selling barrettes, plastic purses and \$2 headphones just around the corner from his store on Licenciado Verdad Street in Mexico City's historical district. "Out there, it's all they sell. They're going to rule the world soon, those Chinese."

It's a common sentiment these days in Mexico, which has lost thousands of jobs to China and is now seeing a flood of Chinese goods on its shelves. Local companies are urging a "Buy Mexican" campaign, and opposition politicians accuse the government of signing dubious trade agreements with China.

Meanwhile, Mexican media mournfully mark every new sign of Chinese dominance, such as the increase in Chinese-made fireworks and Mexican flags during this year's Independence Day celebration. In the latest affront, government agents on Sept. 8 seized a shipment containing tons of statues of the Virgin of Guadalupe, Mexico's Roman Catholic patron, illegally imported from China.

"1.3 billion Chinese are looking in the same direction with a single goal: They want the world's money," the newspaper *Reforma* fretted in a front-page story Sunday.

China is even making inroads on Licenciado Verdad Street, where military cadets and army bands go to buy ribbons, instruments and dress uniforms. Casas Pérez says he sells only Mexican-made goods in his El Cometa II store. But two doors down, a competitor is selling drums stamped "Made in China."

"There is real fear of China among a lot of people, and it's probably founded," said Edgardo Ayala Gaitán, an economics professor at the Institute of Technological and Advanced Studies of Monterrey, better known as Tec de Monterrey.

Dozens of *maquiladora* assembly plants, from golf-club factories to printer-cartridge plants, have moved to China in recent years, contributing to an unemployment rate that hit a seven-year high in August. Mexican wages along the border start around \$2 an hour, but workers can be found for 30 cents an hour in parts of China.

In 2002, China pushed Mexico aside to become the second-biggest exporter to the United States after Canada, according to the U.S. Census Bureau's Foreign Trade Division. Chinese exports to the United States for July 2004 were about 90 percent higher than during July 2000. During the same period, Mexico's exports to the United States rose only about 12 percent.

Last week, World Bank Vice President Michael Klein said China was gaining ground on Mexico partly because it has simplified the paperwork needed to set up

businesses there.

Other analysts have cited cheaper gas, electricity and water prices in China.

Trying to make a friend of its biggest rival, President Vicente Fox's government signed agreements this month to fight brand piracy, strengthen small businesses and ease air travel between the two countries. In October they will begin negotiating a pact to promote and protect investment in each other's territory.

But critics scoff at the agreements. Piracy of American music and clothing is rampant in both countries, and none of the Mexican airlines has the big, trans-Pacific jetliners needed to take advantage of the new aviation pact.

"I think (the agreements) are pure show," said Martín Romero Morett, head of the economics department at the University of Guadalajara.

There is some good news, however, experts said. A few Mexican food companies, such as the Bimbo bread company and Grupo Modelo, maker of Corona beer, have set up shop in China. And last week, Fox signed a free-trade agreement with Japan in hopes of reducing Mexico's dependence on the U.S. market.

But most Mexican companies are now at a crossroads, and they need to start moving out of the assembly business and into areas that require more skill, like design and engineering, economists say.

Some companies have already started. Mexican foundries and machining shops are taking on demanding aerospace work that was previously done by small firms in the United States, and some electronics assembly plants are tackling more complicated projects, such as building network routers.

They are also trying to expand their just-in-time manufacturing advantage, speeding up or slowing down production to match U.S. customers' needs - something that Chinese manufacturers can't do because of the time needed to ship parts across the ocean.

In the end, however, Mexican companies will have to find their own suppliers in China if they truly want to compete, economists say.

"It really scares me that companies are asking the government to campaign for Mexicans to buy Mexican products," Romero Morett said. "They are thinking in terms of the corner store and not realizing that we're in a global market. It's a very big lack of vision."

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