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BODY:

With MEXICO-REMITTANCES, MEXICO-TIMELINE, MEXICO-QUOTEBOX

Note: First in an occasional series

By SUSAN FERRISS

SAN GABRIEL CHILAC, Mexico _ In this tiny southern Mexican town that seems a million miles from nowhere, Ponciano Garmendia is searching for what economists call his comparative advantage in the global economy.

With wooden plows and oxen, Garmendia cultivates a native strain of corn he once easily sold to Mexico City markets because of its distinctive taste.

But sales have soured. Garmendia can't compete with cheaper hybrid corn flooding the market from bigger northern Mexican growers. They, in turn, are challenged by U.S. imports.

Garmendia tried to make up for his losses by selling more of the garlic he grows, but new Brazilian imports are undercutting that crop as well.

He thought of exporting his garlic to the United States, but he hasn't a clue how to begin.

Frustrated with farming, Garmendia's adult sons saw opportunity in a small local factory that assembles trendy blue jeans for U.S. consumers.

The pay was low _ $35 a week to start _ so the sons decided two years ago they would look for their <comparative advantage> elsewhere.

They found it in Raleigh, N.C., where, as undocumented workers, they took jobs in factories and restaurants and made much more money in a day than they made in a week back home in Puebla state.

The Garmendia tale represents the predicament millions of Mexicans face every day, and illustrates the story of a nation caught between the negative changes wrought by globalization and an urgent need for economic development.

Mexico has spent a century searching for the right formula to help it modernize, develop and provide jobs for the 1 million people who enter the work force each year.

Nothing, it seems, has worked.

Not heavy-handed state control, which Mexico tried for decades. And not, thus far, globalization and free trade.

For roughly the past 20 years, Mexico, along with much of Latin America, has moved vigorously into the global marketplace, embracing free market measures and trying to use its proximity and relationship with the United States _ the biggest consumer market of all _ to its advantage.

The North American Free Trade Agreement, which took effect Jan. 1, 1994, was touted by its creators as a means of improving the economies of the United States, Canada and Mexico, and increasing the fortunes of each nation's citizens. But in many poor parts of Mexico, the most visible effect of NAFTA and other economic measures is to be found in the Mexicans no longer living there. The global marketplace isn't offering them enough at home, so they're crossing the border illegally in search of jobs in the United States.

A surge in illegal immigration was not part of the bargain when free-market proponents on both sides of

the border sold economic changes in the late 1980s and early 1990s. On the eve of the U.S. Congress' narrow approval of NAFTA in November 1993, former Secretary of State Warren Christopher told lawmakers, "As Mexico's economy prospers, higher wages and greater opportunity will reduce the pressure for illegal migration to the United States."

Yet over the past decade, almost every Mexican municipality, from remote Indian villages to urban working-class neighborhoods, has seen many of their residents head north as their economic situation worsened rather than improved.
Between 1990 and 2000, the number of undocumented Mexicans living in the United States rose from an estimated 2 million to 4.8 million.

Tens of thousands of men, women and children put their lives in the hands of ruthless smugglers who lead them into deserts and across rivers, or stuff them by the dozens in hot, locked truck trailers. Hundreds die every year, of hunger or thirst or suffocation.

But the potential rewards for those who make it into the United States are a powerful draw.

"People didn't use to leave like they do now. But look around. The only ones who are building homes here now are those with someone working in the United States," said Garmendia, 52. "Me, I'm still trying to hold out here."

JOBS AND POVERTY.

Fueled by multinational capital, Mexicans now assemble some of the most ubiquitous consumer items in the United States.

Chrysler's PT Cruiser and the new Volkswagen Beetle are pieced together in Mexico, as are several Ford and General Motors trucks and cars. Mexicans also assemble many of the stoves and most of the televisions and other electronic
goods Americans buy. Hewlett-Packard, IBM and other big names in computers have large assembly operations

in Mexico, but have recently begun to trim their workforces. Mexican factories assemble Nike shoes and sew clothes for the Gap, Tommy Hilfiger, Levi's and many other popular American brands.

Mexico surpassed Japan in 1997 to become the United States' second-largest trading partner after Canada. Exports north tripled during the decade before NAFTA took effect, and tripled again afterward, slowing down only at the end of 2000 with the U.S. economic downturn.

So intertwined is Mexican manufacturing with U.S. consumption that America's economic woes have cost Mexico a half-million jobs the past four years. Many of the jobs lost have been in the textile, electronics and other assembly factories that NAFTA nurtured.

But the job losses go beyond the impact the U.S. economy has on Mexico.

The multinational corporations that once found Mexico's low wages so inviting are now finding cheaper labor elsewhere, primarily in Asia. China, with labor costs two to three times lower than Mexico's average maquiladora factory wage of $13 a day, has become a key player on the world's global assembly line. Within the last year, China has surpassed Mexico as the United States' top supplier of an array of assembled goods, including textiles, office computers, metal parts and prefabricated construction parts.

Even before the U.S. economic downturn and China's economic rise, however, Mexico's market reforms were failing to make fewer Mexicans poor. Today, two decades after Mexico began to open its economy, a staggering 50 percent of the population can't afford the $3 to $4 per person per day needed to pay for basic food and health needs, educational supplies, clothing, housing and transportation, according to the government of President Vicente Fox.

The World Bank, the international development agency that urged free-market reforms in Latin America, acknowledges that about half of Mexico's 104 million

people are poor _ just as half were poor in the late 1960s. At least 42 million Mexicans live on less than $2 a day, while 10 million are destitute, living on less than $1 a day, with little access to nutritional food and clean water.

Even those who earn double or three times the minimum daily wage of about $4 a day struggle to make ends meet.

"We tell ourselves that we have to live on 20 pesos ($2) a day for food. Five pesos for tortillas, five pesos for tomatoes," said Felicitas Rivera, 38, a Mexico City maid.

Rivera collects $8 a day, or about 80 pesos _ almost double the minimum daily wage. But her earnings are spent as soon as she makes them. Six pesos a day for bus fare for each of the three days she works. Twenty-four pesos a day for her youngest child's bus fare to school. Thirty pesos a day for the oldest child's bus fare to high school.

That leaves 20 pesos a day to buy food and clothing and pay for any doctor's bills or medicine, since her family is among the 63 percent of the population with no health coverage.

Most of the men in Rivera's Xochimilmo neighborhood earn $12 to $25 a day as construction workers.

"Our children have a better chance at staying in school here in the city than they did out in the country," said Lina Garcia, 52. She moved to Xochimilco nearly 20 years ago and still has to fill jugs with water for her home from a neighborhood tap on a dirt street. There is no sewage system.

"We all know people who have gone to the United States from the provinces," Garcia said. "They might not have enough education. But they're better off than we are. We were fooled."

GAP WIDENS BETWEEN RICH, POOR.

Mexico's reforms have generated great wealth, to be sure, and for most of the 1990s Mexico's economy appeared more dynamic than ever. Doors swung open for foreign investment. Tariffs on an array of U.S. and other foreign imports began to fall, making them more affordable to more Mexicans. Factories geared for overseas markets boosted exports to 30 percent of Mexico's gross domestic product.

With open trading borders and a wealthy elite, Mexico now boasts several BMW, Mercedes-Benz, Ferrari and Jaguar dealerships _ luxury rarities in the past. There are more foreign-brand consumer goods to choose from and a growing number of expensive resorts and chic restaurants to visit. Yet the riches haven't trickled down to most Mexicans, and for all the conspicuous consumption among the well-to-do, tens of millions of Mexicans live day to day.

The continuing, indeed deepening, economic inequality has Mexicans furiously debating how to bring about the opportunities promised by NAFTA and other free-trade measures. A strong popular sentiment has emerged across much of Latin America that the rush to reform was foolish. Partly driving the debate is the Bush administration's hard push to complete a Free Trade Agreement of the Americas by 2005, which would end tariffs and barriers throughout the hemisphere.

For many Mexicans, though, the failure of the country's economic reforms goes hand-in-hand with the failed policies of the former authoritarian ruling government. The Institutional Revolutionary Party, or PRI as it is known by its Spanish acronym, committed serious errors as it pushed for free-market reforms. It botched, for example, the privatization of state-controlled banks in 1991 and 1992, which cost Mexican taxpayers $105 billion to save financial institutions from collapse. The privatization of highway projects was bungled as well, resulting in a $7 billion bailout. <Mexico> now has some of the most expensive toll roads in the world.

Before Mexico's leaders began to open the economy, the PRI maintained the country's high barriers to investment and trade. During the course of its 71-year rule, which ended in 2000, the PRI seized private foreign oil companies, distributed land to peasants and built a protected manufacturing sector that produced cars and televisions, although they were often criticized for their poor quality.

Millions remained poor. But thanks in part to oil revenues, per capita income advanced by about 113 percent between 1960 and 1980, compared with only 11 percent between 1980 and 2000.

Mexico's economy began to tumble in the late 1970s and early 1980s when the PRI led Mexico into bankruptcy with corrupt and inefficient public spending. The national debt ballooned to 60 percent of GDP at one point, and <Mexico> was forced to seek loans from the U.S.-dominated International Monetary Fund, make cuts in public spending and pursue free-market reforms.

When Carlos Salinas de Gortari became president in 1988, he impressed U.S. leaders with his fluent English and Harvard economics degree. He helped sell NAFTA north of the border, and he raised Mexicans' hopes and expectations. Then the peso crashed as he was leaving office, slashing buying power by 50 percent and eliminating 1 million jobs. Salinas, the leading advocate of economic reform, is now a villain to most Mexicans.

Jorge Miranda, a former trade policy adviser to Salinas, says Mexico would be worse off now had reforms not been enacted. But he concedes that mistakes have been made.

"I don't want to call it a fairy tale," said Miranda, who now represents U.S. companies in trade disputes with Mexico. "But reforms were opened up and are not being steered."

International business executives fault Fox and Mexico's Congress for failing to pass reforms that would help Mexico gain a competitive edge in the world economy. Mexico urgently needs to get rid of the reams

of red tape that exist to start a new business, and reform its foundering public education system and its inefficient and expensive state-run electricity industry.

Rogelio Ramirez de la O, an analyst and adviser to foreign companies, said, "It's the fault of the Mexican government for being complacent and thinking these (trade) agreements were an automatic passport to wealth."

Mexicans also bemoan the demise of Mexican-owned enterprises that were unprepared to compete.

"Globalization only favors the big multinational corporations," said Ruben Barrios, whose family in Mexico City built a thriving business making brake parts.

Barrios' company went from 25 white-collar workers to six, and from 100 blue-collar workers to 15 after NAFTA and other measures knocked down trade protections.

Foreign motor vehicle makers operating in Mexico once had to ensure that Mexican companies supplied at least 60 percent of the parts used in assembly. These requirements are being swept aside.

Global competition has knocked out many Mexican industries that were customers for his brake parts, Barrios said. Now he's trying to survive by converting his business to a consulting firm on the science of brakes.

"The only historic role that businessmen in Mexico have right now is survival," Barrios said. "Exports can't provide for all the basic needs of Mexicans. The proof is the number of our people who are leaving to work in the United States."

MAKING ENDS MEET.

In San Gabriel Chilac, a farm town with a few factories, Maria Luisa Ramirez hasn't left Mexico. But like Ponciano Garmendia, she is experiencing the fickle nature of the global economy.

Ramirez started working in assembly plants seven years ago. Last year, the owner of a small local shop where Ramirez worked cleared out all the machines one night, locked the doors and stiffed Ramirez and other workers for a week's pay, $65.

Today Ramirez works out of her one-room home with another woman. Together, as their children gaze on, they snip the threads off newly assembled jeans with the Paris Blue or L.E.I. labels for three cents a pair. If they can finish 200 pairs of jeans in a day, they will earn $6.

"It took three hours to do 25 pairs of pants," said Ramirez, her scissors flying along seams bristling with yellow thread.

She has no illusions about why she's working at home now.

"There are lots of women in town now who do this work in their homes," Ramirez said. "It's more convenient for the companies because they pay less."

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BROKEN PROMISES: MEXICANS RELY ON CASH FROM FAMILIES IN U.S.
For release Sunday, Aug. 10
With photos
With MEXICO-MAIN, MEXICO-TIMELINE, MEXICO-QUOTEBOX

Eds: Tulcingo del Valle is 280 miles south of Mexico City.

By SUSAN FERRISS

TULCINGO DEL VALLE, Mexico _ Pungent red chili peppers, corn and sugarcane were once big cash crops here.

Now cash sent from the United States is the crop residents harvest most.

In a scene repeated in hundreds of communities all over Mexico, residents of this remote township flock to money-transfer businesses every day to pick up cash their immigrant relatives wire home from the United States.

The money rolls in from wherever the migrants, legal and illegal, have gone: Houston, Chicago, Los Angeles, North Carolina, Georgia. And especially, New York City.

The infusion of U.S. dollars, called remittances, has become a godsend in Tulcingo del Valle and other communities where homegrown jobs are scarce and farmland now lies fallow for miles around.

Remittances feed children and elderly parents, and make dreams happen by giving birth to small businesses. They build houses and pay doctors' bills.

And they are proof of how tightly intertwined the U.S. economy and immigrants have become.

The volume of remittances to Mexico has increased so much over the past decade that during the first four months of 2003, they hit a record high of $2.74 billion. For the first time, remittances surpassed the $2.57 billion in foreign investment that Mexico took in during those same four months.

Remittances are also a greater source of U.S. dollars in Mexico than all the dollars earned through tourism. And Mexico is one of the world's top 10 tourist destinations.

``The question is not why people come back here. The question is why they had to go in the first place,'' said Osvaldo Rodriguez, 26, pouring steamed milk over espresso at his new Internet cafe in Tulcingo del Valle, a town in Puebla state.

Rodriguez's young customers peck at keyboards, playing games, doing homework or chatting with family and friends in the United States.

Rodriguez migrated illegally to New York City when he was 14. He eventually gave up the excitement of working at restaurants in New York's Greenwich Village and returned to his own village to invest his savings.

Fluent in English, Rodriguez has decorated his Ciber Cafe with Kandinsky and Miro prints. It's a touch of big-city sophistication in a town where chickens still roam unpaved roads and one of the main drags doubles as a riverbed when it rains.

Today, to meet basic needs, an estimated 1.5 million Mexican

families depend exclusively on remittances their family members send them from the United States.

When he took office in 2000, Mexican President Vicente Fox hoped that remittances could be used as leverage to spur job development and build infrastructure in backward areas of Mexico. He suggested that the United States and Mexico together establish a sweeping guest-worker program, so that workers wouldn't have to risk their lives crossing the border to occupy jobs Americans don't want.

Before Fox was president, he and a few other state governors started programs that match funds migrants send home as investments in small businesses or infrastructure projects.

But nothing the U.S. and Mexican governments have done the past few decades has stanched the overall flow of humanity northward in search of higher-paying work in the United States, where many know there are jobs to be had.

``When I left here I had nothing. When I came back, I built a house and my own business. Now my children have more than I ever had," said Victor Velasquez, 41, who was an undocumented employee at the Astrodome in Houston in 1980 before he went on to wash dishes and prepare salads in Manhattan.

Now Velasquez has a fleet of trucks for his bottled water delivery business and four employees.

Juan Manuel Rodriguez, 34, earned a coveted U.S. residency card after a decade in New York, but he returned as well.

Now his Penafort Travel Agency is a pillar of the community, with a modern computerized system that issues tickets for flights all over Mexico and to the United States.

Rodriguez left Mexico with only a junior high school education, but he credits years of work in a Greek restaurant in New York with teaching him business skills.

``We learn to be audacious there, not to be afraid and to deal with the public better," Rodriguez said.

Cafe owner Rodriguez's younger sister, Adriana, benefited from the remittances her older brothers sent home while she was growing up. But she also believes migration distorts lives.

``All my childhood friends have gone up there," the 17-year-old future medical student said. ``That's what was always on their minds. They never really had other aspirations. They just wanted to be an illegal in another country."

The quest for dollars doesn't always end in triumph.

Elisendo Cabanas, who lived on a withering farm just outside Tulcingo del Valle, perished in Texas in May.

Nineteen illegal immigrants suffocated when smugglers stuffed them into a truck trailer so they could be secretly transported to Houston.

``He had a sick child who was in the hospital twice. That's why he went,'' said Refugio Gonzalez, 62, Cabanas' mother.

She's taken in her son's widow and his 3-year-old son and 10-month-old daughter.

Gonzalez has a U.S. visa that's a ticket to live with sons in Houston who are legal residents. But she doesn't want to leave Elisendo's children.

``On the one hand, they comfort me,'' she said, weeping. ``On the other, looking at them makes me sad.''

As younger people clear out of town, the graying of Tulcingo del Valle is painfully apparent.

Elderly residents, wrapped in shawls and hobbling on canes, are frequent customers at the money transfer centers. Old people queue up on weekends when businesses accept packages to be mailed to migrants in the United States.

Agripina Arista, 76, frail and nearly bedridden in nearby Chila de la Sal township, survives on the money her children send her so she can hire a young woman to help her around the house.

All eight of Arista's children are living in New York now, and she doubts they'll ever come back.

When she was in her 60s, Arista once trekked illegally across a remote part of the border so she could travel to New York to be with her children. She didn't like it.

``I won't lie to you, I think half of the town of Chila is up there,'' she said, swatting at flies that buzzed around her bed in the summer heat. ``But the old people don't want to leave. I went. I saw. My son came and said, 'Let's go, Mama.'

And I said, 'No, let me die where my land is.'''

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With <MEXICO>-CORN, <MEXICO>-RICE

Note: Part of an occasional series on <Mexico's> economic plight at the 10th anniversary of NAFTA

By <SUSAN FERRISS>

Cox News Service

<ZAPOTLANEJO, Mexico> _ Javier and Jaime Hernandez fear their dairy farm won't survive, not even with the thick green pastures their 50 cows have to feed on in the summer.

Not even with the new government program that pays half of their diesel fuel costs.

Not even with the credit a big milk distributor extended them to help them build a stainless steel refrigeration unit.

Not even with their will to rise every morning, just like their father did, to battle manure and mud in order to milk the cows at 3:30, and to repeat the process 12 hours later.

The two brothers, <farmers> in the southwestern Mexican state of Jalisco, know the odds are against their family business because they've seen what it's like on "the other side," as Mexican immigrants call the United States.

As illegal immigrants, and then in Jaime's case as a legal U.S. resident, the brothers worked for giant dairy operations in California. They labored for the same type of big American business whose surging exports to <Mexico> are prompting Mexican <farmers,> especially those who produce staples like grains, meat and milk, to complain that prices for their products are being depressed and they are being wiped out as a result.

The global economy's ironic twists of fate are not lost on the Hernandez brothers.

"I'll make you a deal. If you Americans are going to finish us off, then why don't you give us visas so we can work there?" said Javier, 33, as he led his cows into his barn.

He attached two electric milking machines with hoses and rusty canisters to his cows' udders. The machines are the kind used decades ago in the United States, and a grim symbol of what the Hernandezes are up against.

Throughout rural <Mexico,> millions of small <farmers> are struggling to stay afloat and compete against an American agricultural juggernaut whose efficiency and government support far outstrips <Mexico's.>

The 1994 North American Free Trade Agreement has opened <Mexico> to U.S. imports by phasing out tariffs that were once triple digit for many products. Last year, <Mexico> surpassed Japan to become the top destination for U.S. beef, with the volume of shipments nearly five times greater than they were 10 years ago. Pork imports from the United States have nearly doubled since 1994. U.S. chicken imports have also soared, making <Mexico> the third biggest export market.

U.S. corn imports now account for about 30 percent of <Mexico's> market. Three decades ago, <Mexico's> rice <farmers> supplied all the country's needs. Today, about 80 percent of rice consumed in <Mexico> is imported, and almost all
of it comes from the United States.

The numbers are good news for U.S. agribusiness, but ruinous for Mexican <farmers> who can't compete, have no unemployment insurance and few alternatives for work elsewhere.

<Mexico's> previous governments and the first Bush and Clinton administrations promised that free trade and other economic reforms would provide more jobs in

<Mexico.> But at least 2.7 million farm jobs have been lost since <Mexico> entered NAFTA with the United States and Canada.

As a result, <Mexico> has emerged as a key player in a fierce worldwide debate over the impact that farm exports from rich countries have on their poorer trading partners.

The fight is expected to reach a climax Wednesday when World Trade Organization ambassadors meet in Cancun to negotiate more reductions to barriers on global trade and investment. Developing countries such as <Mexico> are urging the United States, the European Union and Japan _ all leading supporters of free trade _ to accommodate poorer countries whose <farmers> remain shut out of foreign markets, yet are hurt by the aggressive promotion of exports from richer countries.

The much higher yields in U.S. grain crops and other staples might be the decisive factor that dooms many Mexican producers now that import tariffs are gone or near zero. But <farmers> in <Mexico> are dismayed by the billions of dollars in annual government subsidies American <farmers> receive, along with price supports, programs that promote U.S. farm exports and payments for taking land out of production. Japanese and European <farmers> are also heavily subsidized by their governments.

Last year, apart from subsidies, U.S. agribusiness received an estimated $26 billion in public services, including free university research, government research and marketing assistance, and infrastructure benefits.

In contrast, Mexican producers benefited from only $710 million in government support, according to the Organization of Economic Cooperation and Development, a consortium of countries monitoring economic policies.

<Mexico's> problems go back to the 1980s, when, after decades of stagnation on farms, <Mexico's> leaders tried to restructure the rural economy with free-

market economic doctrine. The government reduced price floors for products and reduced aid available to smaller, inefficient <farmers.>

U.S. officials at the time applauded the efforts. Now some say <Mexico> is to blame for its crisis because it failed to replace the old system with vigorous rural development to help displaced <farmers> make a graceful transition to other jobs.

<Mexico> signed NAFTA in late 1993 and began accelerating the reduction of tariffs, which this year were phased out to zero on all U.S. farm imports except corn, sugar, dry beans and powdered milk, products deemed especially sensitive to competition. Tariffs on these products are scheduled to disappear in 2008.

President Vicente Fox, who inherited <Mexico's> farm problems when he was elected three years ago, says <Mexico> hasn't had enough time to adjust to U.S. competition and fix the disaster left by the Institutional Revolutionary Party, the PRI, which controlled <Mexico> for 71 years until 2000.

Fox links the farm crisis to an increase in migration to the United States. Migration has long existed as an escape from rural poverty, but it has now affected 96 percent of <Mexico's> municipalities. Between 1990 and 2000, the number of undocumented Mexicans living in the United States rose from an estimated 2 million to 4.8 million.

Jaime Hernandez, a legal U.S. resident, could have stayed north of the border. But he returned. "I wanted something of my own," he said.

Yet U.S. dairy imports are increasing, jumping by 32 percent just between 2000 and 2001. Mexican dairy representatives say 5,000 out of 150,000 producers shut down over the past three years. Milk production, which initially increased dramatically under NAFTA, has recently fallen to 1 percent or 2 percent annual growth.

The Hernandez brothers don't know if <Mexico's> new emergency $2.1 billion farm bill _ compared with the 2002 U.S. farm bill of $180 billion _ will help them catch up with U.S. technology. Javier recalled with awe how he and another undocumented immigrant milked 1,000 cows twice a day in California with computerized, automated equipment.

Since NAFTA, the volume of farm trade between <Mexico> and the United States has doubled. In 2002, <Mexico> imported $7.9 billion in farm products from the United States and exported $6.1 billion.

Mexican-grown fruits and vegetables have fueled <Mexico's> surge, but larger farms with U.S. capital and U.S. distribution partners dominate that business. These farms offer hundreds of thousands of jobs to farm laborers.

But among the <farmers> struggling are the estimated 3 million Mexican families who still raise corn on small family farms, and the hundreds of thousands of others growers who provide other staples for the domestic market.

Ranchers, too, have suffered. The Mexican Cattlemen's National Confederation said its industry slaughtered 6 percent fewer cattle than last year, while U.S. imports grew to an estimated 39 percent of all the beef products on the Mexican consumer market.

The explosive growth of supermarkets in <Mexico> is contributing to the promotion of U.S. meat. Wal-Mart's 600 <Mexico> stores, which operate under various names, are key sources for imported meat and now control half of supermarket sales.

Jose Luis Calva, a top Mexican farm economist, said the free-market theory behind <Mexico's> dive into globalization was that small <farmers> wouldn't compete with imports. They would melt away, into manufacturing, tourism, whatever the market provided.

"The thinking was that if they couldn't make it on the land, they'll find something else to do," said Calva. "It was a way of wiping out inefficient small <farmers.>"

But <Mexico's> farm population today is about the same as the United States' during the Great Depression, Calva said. "We are going to need many decades more to move that many people from the farm into other jobs."

Farm families still comprise as much as a quarter of <Mexico's> 100 million people, compared with 2 percent of the U.S. population.

When NAFTA was negotiated, <Mexico> was a one-party state and the Congress rubber-stamped whatever the president wanted.

"The treaty was probably negotiated with good intentions. But we didn't realize what it would do until it was on top of us," said Salvador Ibarra, another Jalisco milk producer. "Now we need to reactivate our countryside. We can't all go to the United States."

U.S. officials agree <Mexico> needs assistance with rural development, but reject that NAFTA is to blame for dislodging <farmers.>

"Our position is that the focus on NAFTA is a phony one," said a U.S. government official who spoke on condition of anonymity.

With trade liberalization, <Mexico> has benefited from cheaper food and more variety, the official said.

"There are a lot of factors affecting what's going on in the (Mexican) economy, not just imports," said Lynn Heinze, vice president for information at the U.S. Meat Export Federation in Denver.

But Heinze acknowledged: "The government of <Mexico> is facing a major challenge in that a lot of smaller producers are having to find new ways to support their families. The jobs are not being created as fast as the people are losing them."

U.S. officials estimate that 15 percent of <Mexico's> farms are "big players," 35 percent are medium-size and 50 percent are subsistence <farmers.>

The middle 35 percent "could be good producers if they got additional support from the government," another U.S. official said.

The bottom 50 percent, he said, "will never be in the market."

For economist Calva, <Mexico's farmers> are the victims of "free-market fundamentalism," both at home and in Washington, where the World Bank and other international development institutions advised developing countries like <Mexico> to reorganize and reduce farm subsidies, while lowering tariffs on products from richer countries.

Before NAFTA was signed, Calva warned that phasing out tariffs would plow under even medium-size <farmers if Mexico's> government didn't come up with an investment strategy for the countryside.

For most of the second half of the 20th century, subsidies for <Mexico's> <farmers> were used as political tools, doled out at election time to persuade uneducated <farmers> to vote for the PRI _ or lose what little they were given.

With reforms, "the idea was that there would be a mass abandonment of the countryside. But that hasn't happened," economist Alejandro Nadal said. "It's the poor person's answer to the crisis. They think, 'All I have is this little piece of land.'"

In <Mexico's> countryside, <farmers> hunger for relief.

"The pork business had its ups and downs, but not like now," said Alfonso Ruiz, 62, who returned to his native Jalisco to farm after he worked legally in the United States during the 1960s.

The U.S. share of the Mexican pork market rose from almost 14 percent in 1998 to more than 24 percent in 2002. The number of pork producers has tumbled 30 percent over the past decade.

Ruiz raised 500 piglets a month in warehouses that are now empty. He has other farm activities he can fall back on, but he dismissed five families who worked for him.

Grains for animal feed went up 30 percent over the last year, Ruiz said, but the price for pigs dropped 30 percent.

"The government doesn't have a lot of money to invest in us. Yet it can't close the doors completely to imports," Ruiz said. "But there needs to be some sort of quota or limit."

At Guadalajara's municipal slaughterhouse, Jose Santana Mesa, 28, recently auctioned off six young cows he trucked in from four hours away. Business was so bad, he said, his 35-year-old brother gave up and left for the United States.

<Farmer> Hector Mendoza said prices for livestock have dipped so low, he can't interest his college-educated son in farming even though he now has business know-how. "We're being pushed to the brink," Mendoza said. "Only by slowing imports can we begin to compete."

In Jalisco, some <farmers> say they're getting extra help now from federal and state advisers, who are encouraging the formation of cooperative farms that can better compete against U.S. imports.

Beef producers say they desperately need upgraded packinghouses if they're expected to compete with packaged meat from the United States.

The U.S. meat-packing industry is now concentrated in the hands of a handful of mega-corporations. Tyson-IBP, ConAgra Beef, Cargill and Farmland National Beef Packing control 81 percent of the industry.

"The multinational companies are going to defend at all cost a market they've penetrated," said Salvador Alvarez, president of the Jalisco Regional Cattlemen's Union.

Mexican producers still control 67 percent of the Mexican dairy market, but every year their grip loosens.

Ernesto Larrondo, president of <Mexico's> National Association of Milk Producers, said U.S. and European producers have advantages Mexicans can only dream of.

Even after foreign milk products are dehydrated and packaged for export, Larrondo complained, they hit <Mexico> at prices lower than at home.

"Foreign imports are coming in at distorted prices," Larrondo said. "Somebody is absorbing that cost. And those somebodies are the treasuries of the United States and the European Union."

Proportionally, between 1986 and 2001, direct government subsidies to U.S. milk producers were, on average, more than 51 percent of what producers earned at world-market prices. <Mexico's> subsidies were, on average, less than 35 percent.

The Mexican government has attempted to slow the tide of U.S. imports, in vain, some say, by imposing emergency duties on select beef, rice and other products it says are being "dumped" _ sold in <Mexico> at lower than production costs and prices at home.

The Bush administration is fighting back. In June it filed a complaint with the WTO, demanding that <Mexico> be ordered to lift beef and rice tariffs.

"Since NAFTA, <Mexico> has become our third largest market for food and agricultural products," U.S. Agriculture Secretary Ann Veneman said in a statement in June. "It is unfortunate that we could not resolve these matters bilaterally. But we have been patient and now must ensure that the trade agreements are fully enforced.

"Our <farmers> expect that 'a deal is a deal' and must be lived up to."

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Cox News Service

<September> 5, 2003 Friday

SECTION: International News

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HEADLINE: BORN INTO THE CRADLE OF <CORN,> MEXICAN FARMERS REELING AS U.S. IMPORTS SURGE

BODY:

With <MEXICO>-FARMS, <MEXICO>-RICE

Note: Xohuayan is in Yucatan state about 90 miles southeast of Merida, near the city of Oxkutzcab.

By <SUSAN FERRISS>

Cox News Service

XOHUAYAN, <Mexico> _ Whispering a mixture of Christian and Maya(cq) Indian prayers, Jubensio Falcon Xool bowed over an altar and gently pried open a chicken's mouth to receive drops of holy water.

He blessed the animal and implored the rain god, Chac, to deliver enough rain to grow squash, papayas and other produce. But above all, he asked Chac to ensure plenty of <corn,> the most basic, sacred, food for people in this village on <Mexico's> tropical Yucatan peninsula.

"It would be impossible for us not to grow <corn.> That could never happen," said Falcon, 70, speaking in Maya through an interpreter to Spanish.

"<Corn> is our first need," agreed Jose Celiano Chan, a younger villager. "But as a farm product, it doesn't fetch anything anymore, and it's not worth the work."

Millions of Mexicans, not just Maya villagers, cannot envision a world without <corn> farming. Yet, in a profound change for <Mexico,> millions are discovering they can no longer even eke out a living growing <corn> because of the market changes wrought by the North American Free Trade Agreement, or <NAFTA.>

<<Corn> cultivation was born in <Mexico,> from 8,000 to as many as 10,000 years ago, and the country's pre-

Hispanic civilizations revolved about the need to please gods to ensure its growth.

In Xohuayan, population about 1,000, <corn> is still the foundation of the village. But its collapse as a product has prompted more than half the men, some with only limited Spanish, to migrate to the United States. Eight years ago,
they began to go north, congregating in San Francisco or Santa Rosa, Calif., to earn money for families and to prop up their failing farms.

Since <NAFTA> began, barriers on U.S. <corn> imports have been lowered and U.S. <corn> imports have soared by about 400 percent, now fulfilling 30 percent of <Mexico's> total domestic needs.

<Mexico's> farmers, even those who are bigger, can't match the might of U.S. <corn> production, with yields as much as four times greater per acre, and billions in annual subsidies that help produce vast, cheap surpluses.

Farmers' groups here blame the imports for depressing prices in <Mexico.> But they also blame their rising costs and the decline of government guarantees for driving down the price they earn for their crop by as much as 70 percent since <NAFTA> began.

Almost half of <Mexico's> 3 million <corn>-growing families, about 15 million people, were poor even before <NAFTA,> farming with little more than wooden plows, a few acres and prayers that rain would fall abundantly.

In the early 1990s, <Mexico's> government began to implement free-market economic reforms, <NAFTA> among them, designed to rationalize farm production and decrease government expenditures on inefficient farmers. Price floors for <corn> were abolished, along with a federal program that guaranteed purchases of the grain.

Subsidies became individual, and concentrated among big growers.

With 60 percent of <Mexico's> farmland devoted to <corn when NAFTA> was signed, the agreement included a 15-year transition period before tariffs on imported <corn> were to fall to zero, in 2008.

Before <NAFTA> was signed in 1993, an assistant agriculture sectary, Jose Luis Solis, admitted the agreement "would have a significant effect of massive unemployment in the Mexican countryside," especially among poor <corn> farmers.

Yet <Mexico> truncated the transition under <NAFTA> by immediately importing more U.S. <corn> tariff-free than <NAFTA> required. Most of it is destined for animal feed, but it also supplements tortilla meal.

The country's leaders reasoned that <Mexico> would benefit from cheap <corn> imports because 75 percent of the population is now urban.

Still, consumers complain about tortilla prices. Because wholesale production of <corn> meal is controlled by a few monopolies, tortilla prices rose 500 percent during the first five years of <NAFTA,> according to Mexican economist Alejandro Nadal.

As the clock ticks up to 2008, Mexican farmers fear that U.S. <corn> could dominate in <Mexico.>

Farmers here are aghast that U.S. <corn> producers received more than $9 billion in production subsidies in 2000, and more than $6 billion in 2001. <Mexico's> entire emergency 2003 farm bill, which includes big increases, is about $2.1 billion.

Two multinational corporations, Cargill and Archer Daniels Midland, control 70 percent of U.S. <corn> exports worldwide. And international aid groups, like Oxfam, charge that the <corn> the companies are exporting to <Mexico> is destroying the livelihoods of Mexican farmers.

In the highlands of rural <Mexico> state north of <Mexico> City, Ismael Fidel Plata, who farms about

eight hectares _19 acres _ isn't sentimental about <corn> and would gladly switch to another crop.

Plata made only a $100 profit from each hectare of <corn> he harvested last year.

"We're willing to make a change, but we need help," Plata said, as his lush green <corn> swayed in the wind nearby. Laden with cobs, the tall plants belied how unprofitable they are.

Farmer Rosendo Alvino Correa said two of his nephews recently left for the United States because of low <corn> prices. "When our leaders made these changes," he said, "not even in their dreams did they know what it was like to be a farmer."

In Xohuayan, Jose Mariano Chan said villagers only grow <corn> now for their families, or to sell to pay for transportation costs for taking fruits and vegetables to market.

"We're willing to make a change, but we need help," Plata said.

Farmers also blame the <corn> crisis for a surge in migration from states where migration was previously limited, such as Yucatan. In the Yucatan village of Xohuayan, men only recently began to migrate.

They have always been poor, they admit, but now migrant dollars are the main source sustaining the village and propping up the farms of those left behind.

"Sometimes people sell <corn> to pay for the cost of trucking their fruits and vegetables to market," said Jose Mariano Chan. "Then they run out of <corn> for tortillas and have to buy it back from stores at double the price they sold their own <corn> for."

The old ways are fading in Xohuayan. But this summer families showed their devotion to Chac and <corn> with an ancient ritual.

While loud Mexican pop music blared, villagers prepared thick tortillas and stacked them 12 layers high to symbolize the Christian apostles.

One special tortilla included an extra layer to represent Chac.

Francisco Chan, 27, videotaped the ritual with a camera he brought back from California last year after a stint at an Italian restaurant in Santa Rosa. While videotaping, he reminisced about preparing salmon and capers and fettuccine for Americans for $9 an hour.

"The rain god gave <corn> to his children so they could eat," elder Jubencio Falcon Xool said, while Chan's camera rolled. "The rain god made our ancestors responsible for traditions, and we must carry on with them."

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HEADLINE: BROKEN PROMISES: MEXICANS RELY ON DWINDLING EXPORT ASSEMBLY WORK

BODY:

With MEXICO-SWEATSHOP

With photos

Note: Part of an occasional series on Mexico's economic plight at the 10th anniversary of NAFTA

By <SUSAN FERRISS>

<<Cox> News Service

CIUDAD <JUAREZ,> Mexico _ More than a dozen years after arriving in this sprawling factory city, Veronica Hernandez feels as poor as the day she first climbed onto the lower rungs of the global assembly line.

The 26-year-old works about 45 hours a week for a $55 base salary at a factory run by the Thomson Corp., where she pieces together the guts of RCA televisions.

She and her husband, Gregorio Cruz, live in the desert on the fringes of <Juarez,> just south of El Paso, Texas. Their home is a one-room hut with little more than an outhouse, an old refrigerator and a battered TV run by electricity pilfered from a distant cable. They haul water from a single faucet that serves more than a dozen other houses.

The barren landscape reminds Hernandez she hasn't progressed as much as she hoped by working in <Juarez's> ubiquitous "<maquiladoras,>" U.S. and other foreign-owned factories where imported pieces are assembled into products for U.S. consumers.

It wasn't always that way. Before Cruz was laid off last year from a factory that once made furniture and Zenith TV cabinets, the couple's joint earnings were about $120 a week. When she and Cruz both had jobs they could afford to rent a real house, Hernandez said, "We used to go to parks. We used to go out. Look at us now."

Since the mid-1960s, when Mexico opened up to U.S. and other foreign-owned companies, it has relied on factories known as <maquiladoras,> a term that stems from the Spanish word for milling grain, for jobs and capital. Now, Mexico is in the midst of a crisis shaking this pillar of its economy.

<Maquiladora> jobs in Mexico are fast disappearing after decades of phenomenal growth in the manufacturing sector, spurred with the help of the 1994

North American Free Trade Agreement. From a high in 2000 of about 1.4 million full-time jobs, about a quarter of Mexico's manufacturing workforce, the factories since have cut between 250,000 and 300,000 positions, and production has plunged by an estimated 30 percent.

China, with its much lower labor costs, has landed many of the jobs, as multinational companies have relocated factories looking for cheaper production and a competitive edge. The U.S. and global economic downturn has rippled through Mexico's economy and eliminated an estimated 1 million additional non-factory jobs linked to the <maquiladora> industry.

The stakes are high because Mexico's assembly industry now represents the single biggest source of Mexican exports, accounting for nearly half of all products shipped out of the country. <Maquiladoras> helped make Mexico one of the world's top 12 economies.

"When the North American Free Trade Agreement was being debated here, one of the mantras was, "Wouldn't you rather have these jobs go to Mexico than China?" said Jeff Faux, former director of the Washington, D.C.-based Economic Policy Institute.

"Now it's turned out that for some products Mexico was just a weigh station on the way to China," Faux said.

In a variation on Ross Perot's warning of "a giant sucking sound" _ the roar of job flight from the United States to Mexico after NAFTA _Mexicans are in a near panic over the challenge China poses.

More than 500 factories have closed in Mexico with the downturn. An estimated 177 factories were closed because companies transferred production to China, according to John Christman, a Mexico-based consultant who tracks <maquiladoras.>

Those 177 don't include specific lines of assembly shut down and moved to China by factories that remain in Mexico.

Chinese manufacturing workers earn an estimated average of 61 cents an hour. Mexicans' average manufacturing wage is $2.08. Many Mexican <maquiladora> workers earn much less than that _ a little over $1 an hour is common _ so it's hard for them to accept that they're overpaid.

"If only the supervisors were to live as we do," said Hernandez, shaking her head.

With the rise of <maquiladoras,> Mexico became host to many of the world's most recognizable multinational companies. Using imported U.S. or other foreign pieces, workers here assemble a dizzying array of products, including electronics, furniture, most televisions purchased by U.S. consumers, brand-name clothing and 45 percent of auto parts that end up in the United States.

In <Juarez, maquiladora> jobs almost doubled between 1990 and 2000, with companies dispatching recruiters to fetch impoverished people from Mexico's hinterland. Now almost 100,000 jobs in <Juarez> alone have been wiped out in the last two years. Entire families have been knocked out of Mexico's national health-care system which <maquiladora> jobs, by law, include as a benefit.

Many of the unemployed are returning to farms in southern Mexico to try eke out a living. Others have migrated illegally to the United States as the flow of migrants desperate for work swells. Still others have joined the ranks of Mexico's vast informal economy.

The <maquiladoras'> decline, ironically, comes just as Mexico is becoming more democratic. In 2000, Mexicans, for the first time in 71 years, threw the Institutional Revolutionary Party out of the presidency. As Mexico sheds its authoritarian legacy, communist-ruled China is emerging as the new darling of multinational corporations.

In 2002, China became the world's largest recipient of direct foreign investment. Mexico, by contrast, saw foreign investment in <maquiladoras> plunge from almost $3 billion in 2000 to $2 billion in 2002. The drop for the first quarter of 2003 exceeded 70 percent.

The Netherlands-based Philips electronics company, which still employs 10,500 workers in Mexico, phased out 900 jobs in <Juarez> and shifted the assembly of 3 million monitors a year to China. The Aneses de <Juarez> company, which made auto parts, also fired 800 employees and relocated to China.

Singapore-based Flextronics initiated a line of Microsoft's Xbox video game production in 2001 in southern Guadalajara, Mexico's second largest city. Media fanfare trumpeted the company's in-house sushi bar, steak grill and screening room. But by the next year, Flextronics had transferred Guadalajara's production
to China, where many Xbox components originate, and eliminated 400 Mexican jobs.

The pressure is on hundreds of workers who piece together fuses for home, industrial and even U.S. military use, at a new Cooper Bussman company plant in <Juarez.>

"China could absolutely do what we do," said manager John Stifel. But the <Juarez> factory has earned its keep with top internal safety and on-time delivery awards in competition against the company's other far-flung plants, including one in China.

Cooper Bussman has a clean, spacious cafeteria in <Juarez> with free meals for its $8-a-day assembly line workers. It continues to gradually absorb jobs trimmed in the United States, including accounts-receivable processing employees
used to do in St. Louis.

"There's a pipeline _ the U.S. to Mexico, to China and India," Stifel said.

He pointed a chart that shows comparative costs for assembly work.

The U.S. tops the chart at $21.10 an hour per employee. Hungary $4.60. Mexico $3.20. China 50 cents. India 36 cents.

U.S. companies still continue to shift jobs to Mexico to cut costs.

Mexico still boasts some natural advantages over China for U.S. manufacturers. Its proximity to the United States cuts transportation cost and time, and its participation in NAFTA allows companies tax-free exports to the
U.S. market.

One of Mexico's biggest <maquiladora> employers, Scientific Atlanta, which assembles cable equipment, transferred 400 jobs in Atlanta to its <Juarez> plant last year. Yet the company also dismissed 1,300 workers from one shift in <Juarez> because of sluggish consumer demand.

As a solution to <maquiladora> flight, President Vicente Fox hopes to attract higher-end factories in Mexico. In early October he lavishly praised Ford Motor Company's long a presence in Mexico. Ford has invested $1.6 billion to build a new factory in northern Sonora state that could employ 5,000 people.

Fox has also commended Delphi, which assembles car parts and is Mexico's largest <maquiladora> employer, for producing more than 30 U.S. patents at a <Juarez> design center that employs Mexican engineers.

Finished auto-for-export assembly in Mexico appears to be growing. But it only employs about 400,000 assembly workers, more than a million jobs fewer than peak <maquiladora> unemployment.

Short of pushing down wages to compete with China, all analysts agree, Mexico's government must act swiftly to enact reforms if it expects to attract the types of businesses Fox is wooing.

Business taxes, which exceed 30 percent, are higher in Mexico than in many other developing countries. Highway tolls are some of the highest in the world. Electricity provided by Mexico's state-run company is expensive, priced higher than in the United States and substantially higher than in China.

Nothing short of a revolution in education is needed because, as Mexican officials admit, the average Mexican adult has less than 8 years of schooling. Some Asian countries and many Eastern European countries can more than match that as they too seek jobs from multinational companies with more sophisticated demands.

"We still lack qualified workers in Mexico. The bet is on what the government is going to do, and in my opinion they are arriving at this late," said Jorge Carillo, an expert on <maquiladoras> at the Colegio de la Frontera Norte's Tijuana campus.

In a small step last month to entice businesses, the Fox government announced a new decree that cuts <maquiladora> red tape by eliminating a three to six-month wait to register as an importer and a law that required 12 months payment up front for renting space.

The <maquiladoras'> crisis has prompted many Mexicans to doubt their country's bet that <maquiladoras> would be a ticket to sustained development.

"I am against the idea of a 'race to the bottom,' and that is what is happening internationally. There is a cannibalism of salaries going on. Mexicans are now looking at Chinese workers as the enemy," said Cirila Quintero

Ramirez, a labor expert at the Colegio de la Frontera Norte's campus in Matamoros, another border city.

Gabriel Baseris Ramirez, who owns a textile <maquiladora> deep in southern Mexico, in the city of

Merida, Yucatan state, said China will likely put him out of business in two years.

China surpassed Mexico this year as top U.S. market supplier of clothing and some other assembled products.

Baseris is down to 380 workers from the 600 he used to employ to operate huge machines that print logos and pictures on Oshkosh and Old Navy kids' clothes.

"In some countries, like the Dominican Republic, there's slavery, like in China," Baseris said. "People will work for much less a day. In Mexico, no. In Mexico, we've got Burger King, Pizza Hut. People want a higher level of living."

At the German-based Siemens electronic assembly plant in southern Guadalajara, German-Mexican manager Adrian Dingfelder warned, "If it's not China, then in 15 years we'll be talking about Africa and the movement of companies there."

Guadalajara used to be known as the Silicon Valley of Mexico. IBM is still piecing together Think Pads there, but Motorola, Hewlett-Packard and other big-name companies have stopped assembling in the city.

Dingfelder said his factory has to prove to its headquarters it can keep the plant agile and count on engineers he's hired to invent new assembly techniques. Inside the cavernous factory, workers in safety glasses sit on lines nimbly assembling airbag control units, ignition controls and other dashboard components for Honda, Chrysler and Ford autos.

But in <Juarez's> colonias, the working-class neighborhoods, <maquiladora> workers talk of the losses that come with making too much money in today's global economy.

"Anyone who has a job now guards it as if it were gold," said Ana Maria Pacheco, 45, who earns less than $60 a week, plus $10 in a grocery stipend at Epson, a company that assembles printer cartridges.

She was laid off at a Philips plant in 2000 and has roamed from job to job, contracted through an employment agency.

Pacheco owns her home, but it still has only an outhouse, even though she's paid into a city fund to obtain a connection to sewage lines.

Between 100,000 to 200,000 other people don't have home sewage disposal in <Juarez,> where stark packing-crate and cardboard huts clash with sleek factories' irrigated lawns and soccer fields.

The promise of a better life that drew people to <Juarez> has turned sour for many. Not least of <Juarez's> problems are hundreds of unsolved, grisly killings of poor young women, some of them factory workers, over the last 10 years.

The city of at least 1.3 million people has more than doubled in size since 1980. In 2000, it installed its first sewage-treatment plants, largely because of $16 million in grants and loans from the NAFTA-founded binational North American Development Bank.

Yet, 10 percent of residents have no access to running water. Half the city's streets remain unpaved.

For Catalina Fuentes, 42, life here is bittersweet.

Her decision to migrate from southern Hidalgo state to <Juarez> propelled her to finish primary and attend secondary school at age 31. After completing junior high, Fuentes took vocational courses and became a factory nurse, earning
double, about $20 a day, what assemblers earn.

"I couldn't have done what I've done here if I were still in southern Mexico," she said.

But she saw the darker side of <maquiladoras> when she supported a union drive among employees in 2002 and was fired from Dometic, a Swedish-owned firm that makes accessories for recreation vehicles.

Gregorio Cruz, 29, who lost his furniture-assembling job and became homeless, has had enough of <maquiladoras.>

Cruz and his factory-worker wife pay $140 a month _ more than half his wife's monthly wages _ for the lot where they've built a crude hut dwelling. And they wait for the day when promises of real electricity, water and sewage service will be fulfilled.

Turned away from every factory where he's tried to get a new job, Cruz is seeking a new start after years of assembling televisions, film projectors and the seats of American cars.

He pieced together a second hut on his lot and opened an informal business he calls "Genesis Hardware." He peddles stacks of cement, jars of nails and other building materials.

"I called my store this because it is a new beginning, and because we are Christians," Cruz said. "In the <maquiladoras,> no matter how hard I worked, it was never mine. At least this is mine."

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Cox News Service

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HEADLINE: WORKERS SAY RIGHTS DENIED AS FIRMS THREATEN TO PULL OUT

BODY:

With MEXICO-FACTORIES

With photos

By <SUSAN FERRISS>

Cox News Service

AJALPAN, Mexico _ Martin Zacatzi Tequextle can recite the names of trendy jeans like an American mall rat: "Tommy Hilfiger, Calvin Klein, Levi's, Guess."

He ought to know. Before he was fired this summer, Zacatzi alleges that he and 1,300 other employees at a textile factory in southern Mexico were forced to sew together thousands of jeans a day with little or no overtime compensation to augment base wages of little more than $1 an hour.

Sometimes they were ordered to sew from 8 a.m. on Fridays until 4 a.m. on Saturdays, say former and current workers, at the factory in Ajalpan, a small town in <Puebla> state about 175 miles southeast of Mexico City.

The factory is co-owned by Tarrant Apparel Group of Los Angeles and wealthy Mexican textile magnate Kamel Nacif, who has made headlines in Las Vegas for high-stakes gambling. Workers here have dubbed Nacif, "The Denim King," because
he owns multiple factories, known in Spanish as <maquiladoras,> that assemble jeans.

Labor activists on both sides of the border regard the Tarrant Mexico dispute as the latest test case for Mexico's willingness to enforce <maquiladora> workers' rights. Allegations of sweatshop conditions are also putting pressure on big-name U.S. brands to oblige foreign suppliers to abide by codes of conduct and local labor laws.

In the past, workers at Mexican <maquiladoras> have been subjected to forced pregnancy testing and other invasions of privacy, or fired for protesting abuses, in spite of Mexican labor laws that appear generous to employees on paper.

In today's Mexico, workers who try to exercise their rights are feeling the squeeze of global competition.

At the Ajalpan factory, some of the workers say supervisors are warning them to acquiesce to excessive demands that they work harder and faster _ or else the U.S. companies that once flocked to Mexico will go to China, where workers earn even less.

Because import tariffs were lowered by the 1994 North American Free Trade Agreement, NAFTA, Mexico's textile <maquiladoras> mushroomed to 1,092 factories by 2001. By June of this year, because of the U.S. economic slowdown and an increase in textile assembly in China, Central America and other poorer regions, that number had fallen to 796.

The threat of China "is used a lot as a pretext now at factories," said Zacatzi. "China needs work. It's got a huge population. But Mexico needs work, too."

The 37-year-old says he turned down nearly $3,000 in severance pay offered by Tarrant, opting instead to challenge his sudden dismissal before a state labor board.

"We're not against transnational companies coming to our country. We welcome them. But we want people to know that Mexican workers are being exploited," he added.

The dispute at Tarrant Mexico began in June, when about 800 workers staged a Norma Rae-style work stoppage. Then they gathered about 750 signatures demanding they be allowed to form an independent union, rare in Mexico because unions were for so many decades controlled by Mexico's former one-party government.

The employees claim they collected enough signatures to require the state labor board to approve their union. But in early October, the board rejected the petition on grounds the employees believe were flimsy excuses to thwart them and protect the influential Nacif.

One of the reasons the board cited for the rejection: The name of a woman union supporter was listed as "Maria" on one document and "Maura" on another.

Since their work stoppage, employees also say, Tarrant has fired workers in waves, starting with all the leaders of the union drive, including Zacatzi. So far, more than 300 employees have been dismissed.

"There are imbalances of power in every country, but Mexico is pretty extreme," said Scott Nova, executive director of the Washington, D.C.-based Workers Rights Consortium, a non-profit group that investigates sweatshop allegations and is respected by big companies like Levi's.

Nova's group produced a damning report on the Ajalpan plant, and in September sent copies to Levi's and Tommy Hilfiger, two top Tarrant Mexico customers.

Levi's asked Tarrant Mexico to become more active in addressing workers' grievances and allow an independent auditor to investigate allegations of abuses at the plant. Tarrant refused, angering Levi's.

"To our surprise, the company was not willing to work with us. It's a very rare case," said Michael Kobori, director of Levi's "global code of conduct" section, which oversees Levi's internal labor standards at its suppliers' plants.

In September, Levi's stopped placing orders with Tarrant and wrote a letter to <Puebla's> governor, Melquiades Morales Flores, urging him to uphold Mexico's labor laws.

Also in September, a U.S. college group called United Students Against Sweatshops filed a complaint related to the Tarrant Mexico dispute before a three-country labor review board established by NAFTA. Along with Mexican activists, the students accused Mexico's government of failing to uphold its own laws.

Blame for the Tarrant plant dispute ricochets among the players at the top of the production chain.

Nacif's office in Mexico City referred calls to Jorge Echeverria, a plant spokesman, who said the 300 layoffs were necessary because companies like Levi's don't want to pay the factory enough. Because of the economy, he added, production at Tarrant's various Mexican plants has fallen by 50 percent or more.

Echeverria called the union supporters who were fired "bad for Mexico" because their actions were costing the

company work.

"Don't you know the United States doesn't buy from us anymore?" he said. "That you buy everything from China now? Then you send people down here to dare to investigate human rights abuses."

Tarrant, he said, rejected Levi's business because Levi's wanted to offer "hunger wages."

Levi's policy is not to discuss details of specific transactions.

But in a statement, the company said: "We can tell you that we have reached mutually satisfactory agreements with over 500 contractors throughout the world who are willing to meet our requirements for service, time, and cost of production, as well as meeting our code of conduct requirements."

Patrick Chow, Tarrant chief financial officer in Los Angeles, Los Angeles, also accused Levi's for failing to offer enough money. As for Levi's request for an audit, he said, "Why should we let them in? They decided not to do business with us."

The Ajalpan plant is currently churning out Express jeans for The Limited, a chain clothing retailer that caters to young U.S. women. The brand responded to inquiries about its position on the Tarrant dispute with a statement: "Limited Brands holds its employees, suppliers and vendors strictly accountable for compliance with all applicable laws and our own business policies, including those relating to labor standards. "

Representatives of <Puebla's> labor board did not return repeated phone calls for comment.

The Tarrant Mexico conflict is reminiscent of a fight nearby at <Puebla's> Mexmode factory, a Korean-owned plant where employees rose up in 2001 to demand a union and to protest abuses.

After the intervention of the company's major buyer, Nike, and United Students Against Sweatshops, the independent union was installed.

Today, more than 700 assembly workers at sewing machines piece together T-shirts and sweatshirts emblazoned with Nike, Disney or the names of U.S. college sports teams. And every Monday, manager Steve Kim or others sit down with union leaders to talk about problems.

"The union is like the face of the company now," Kim said.

Mexmode's workers are happier, said union leader Josefina Perez. The wages still aren't high enough to dissuade some from joining the trail of illegal immigrants to the United States that flows heavily out of <Puebla.> But many feel they have a stake in the company now, and for the first time in several years, Kim said, he expects to make a profit next year.

What happens at the Tarrant Mexico plant, U.S. activists say, depends on whether brands like The Limited will follow Nike and Levi's and use their leverage to pressure the company.

In contrast to Levi's, which took a public stand, Tommy Hilfiger pulled out quietly in what activists call a "cut and run," said United Students Against Sweatshops national organizer Ben McKean.

"The answer is not to drop the company like a hot potato," McKean said. "If a brand leaves every time workers try to organize an independent union, there will never be workers' rights in Mexico."

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BODY:

With MEXICO-EDUCATION

By <SUSAN FERRISS>

Cox News Service

MEXICO CITY _ Just steps off a street teeming with peddlers hawking bootleg DVDs and fake brand-name shoes, Leonardo Rivas hunches over the intricate circuitry of a motherboard. When he's not here, he's off retrieving data for hysterical clients who've lost archives to the ether, or installing software for a complex interoffice network.

A 26-year-old, college-educated computer whiz like Rivas would probably be a prime candidate for work in the United States, or perhaps for a multinational firm or an ambitious local company in an emerging global market like Mexico's.

But Rivas has more kinship with the legions of unlicensed taco and trinket vendors on Mexico City's streets or the family that openly sells pirated software outside his shop.

They are all part of Mexico's growing off-the-books economy in which millions of Mexicans scramble to earn a basic living or find alternatives to the meager salaries companies here offer. Still others have gone underground to avoid the red tape, fees and taxes that choke the entrepreneurial spirit.

"It would be better to be formal. If all of us paid taxes, then water, electricity costs and so much else would probably be lower and more affordable for everyone, and we'd all get better services and better development for our country," conceded Rivas, who dreams of starting a real, tax-paying business

offering computer expertise. "But if the system makes it too difficult for you, then what can you do? You don't believe in the system."

In a search for economic sustainability, Mexico has opened up its tightly-controlled economy over the last two decades, auctioning off state-run industries, wooing foreign investment and experiencing a surge in assembly, or maquiladora, factory jobs serving the U.S. market.

But globalization of the economy without attention to the grassroots hasn't produced as many jobs as promised.

A key feature of Mexico's newly liberalized economy, the 1994 North American Free Trade Agreement, hasn't fulfilled pledges that Mexican-owned businesses would flourish along with exports. Mexican companies only provide 4 percent of the material that goes into the much-touted clothing, electronics and other products assembled in Mexico.

Successive Mexican governments have consistently failed to come up with plans to strengthen homegrown employment and commerce. Nearly two-thirds of working Mexicans, for example, still don't participate in commercial banking with savings and checking accounts, much less qualify for business loans.

Still, with more than 1 million potential new workers coming of age every year, Mexicans need to find ways to earn a living. Because of that, migration has surged to the United States and, at home, the country's informal economy has mushroomed from only 11 percent of all those employed in 1990 to more than 27 percent today.

Mexico's 4.5 million "micro businesses," for example, are one of the biggest sources of employment in the country. But 70 percent of these ventures, often family-run with only several workers, are informal and not registered with Mexico's treasury department.

Teams of street jugglers, gum-sellers, tamale peddlers and "car watchers," people who guide drivers into parking spaces, are abundant in this city.

So are those who are laboring off the books in activities that are not so obvious to the naked eye. Rivas is an example of a skilled professional who earns far more in cash on his own than he would in most formal jobs with equivalent demands. Employment Web sites in Mexico often feature jobs that require college degrees, experience and technological training, yet pay $700 or $800 a month in salaries.

"My cousin works at a bank as a systems manager for their computers. He earns $700 a month," Rivas said. "Forget that. If I get a lot of work, I can earn that in a few days."

If Mexico's <cash economy> continues to grow as anticipated, it is expected to absorb close to 30 percent of all those who are working in Mexico by 2006. Off-the-books trade in services and goods already accounts for more than 12 percent of Mexico's gross domestic product.

The <cash economy> is a safety net that shields millions from hunger.

But it's a time bomb, too.

The phenomenon has dire implications in a country that already has one of the lowest tax collection rates in the world for an economy of its size. Brazil and Argentina, where evasion is rampant also, have a rate of about 20 percent of the value of their GDP. Mexico's rate is only 11 to 12 percent.

Every year, because of the informal economy, millions of people are failing to pay into pension funds and a tax base that is insufficient to support Mexico's ailing education and health systems, its antiquated infrastructure and other public services in crisis.

The need for tax revenue is so critical that it is one of the multiparty Congress' top concerns now. Proposals to

tax food and medicine as a remedy are so contentious that the issue recently shattered the unity of Mexico's former ruling Institutional Revolutionary Party.

The country's underground economy also breeds crime. Mexico is now a major player in pirated, stolen or smuggled imported goods sold cheap on the black market. The capital's downtown streets are clogged with trinkets, cosmetics, clothes, videos, CDs and electronics peddled by vendors linked to Mafia-style mobs that battle violently for turf and thrive on police corruption.

To be sure, people have long worked off the books in Mexico. Almost every middle-class home has a maid, nanny or a handyman. But the expansion of the informal economy shows that Mexico's transformation over the last 20 years has focused more on the "the macroeconomics rather than on the job market," said Alfredo Coutino of the Philadelphia-based Center for Economic Forecasting of Mexico.

The World Bank, one of the international lending agencies that prodded Mexico to liberalize its economy, is now urging leaders to bolster small businesses _ by far the top source of employment in Mexico _ and lure them into legitimacy so they can seek credit and grow.

The informal economy "is a loss, loss, loss, problem," said Simeon Djankov, manager of the World Bank's Doing Business Project 2004, which studies the obstacles to business in countries around the globe.

"The government loses because they don't earn tax money," Djankov said. "The employees lose because they aren't getting social security or pensions. The company loses because they don't want to get too big. They want to stay invisible so inspectors don't go after them."

Research suggests that if even half the informal businesses in Mexico were to be legitimized and start growing, Mexico could add as much as a percentage

point to overall growth every year, which would be significant, Djankov said.

Djankov's project found that because of lawyers' fees, government fees and other expenses, incorporating a company in Mexico costs $1,110. That is 60 times more than incorporating a business in Canada and 40 times more than in the United States.

An entrepreneur is also obliged to deposit more than $5,000 into a bank account that remains frozen for the life of the company, an antiquated creditors' insurance that doesn't exist in the United States or Canada and is one of the highest such requirements in the world.

At the same time, Mexico's bankruptcy laws "are some of the worst in the world," Djankov said, because they offer no protection for creditors. Investment is stifled as a consequence, with credit circulating only among the same elite pool. Only 13 percent of the value of Mexico's GDP is loaned to private enterprise through banks. In Germany, the figure is 118 percent, in Brazil 30 percent.

President Vicente Fox's government, in a gesture to strengthen micro-businesses, has budgeted $100 million each year since 2001 for loans.

It's a small fund, "but it's a good start," said Alejandro Dieck, chief of staff for Mexico's Economy Ministry. "In the past (small businesses) were very neglected."

Mexican officials admit that registering at the local and federal level even very small, self-owned businesses that pay minimal taxes _ 2 percent on estimated sales _ takes more than 50 days in Mexico, compared to two to four in Canada and the United States.

That doesn't factor in deeply-rooted corruption, borne from a system whose many layers of permits and fees offers civil servants opportunities to demand bribes from applicants.

For Gloria Olivares, 52, paying a small bribe to operate her makeshift corn-cake stand is so natural she doesn't even get upset about it. Olivares is typical of many of the poorest street vendors. She lives in a small town and makes a long bus trip to Mexico City to set up a charcoal-heated grill on a corner and test her luck.

While her husband watches and washes parked cars for tips, Olivares earns about $15 on a good day. But it costs her about $6 in bus fare to make the four-hour-long round trip that starts at dawn.

"Those from the city have taken my things before because I don't have a permit. They've told me there are no more permits to be given," Olivares said, explaining that city employees confiscated her grill in the past because she didn't have permission to operate.

"My desperation was such," she said, "that a lady who let me use her bathroom recommended I talk to a man who works in the department of public transit."

She begged the man for help, and he gave her a piece of paper she said seems to protect her.

She wasn't sure what it said. Every once in a while, a city truck passes by and a man hops out to collect $3 or $4 for her to guarantee her space.

"I'm never giving up this space, not for anything in the world," Olivares said. "Not after suffering pain, tears, hunger, cold, rain and sun."

Such a bribery arrangement is genteel compared to the high-stakes extortion in prime shopping territory, where shop owners have demanded that street sellers be ousted and police play a protection game.

"People think the informal economy is free. It's not. The price of informality is not zero. Those in it are often subject to corruption," said Carlos Arce, another Economy Ministry official who directs programs to loosen red tape so that more businesses can register and pay taxes.

One such measure requires federal and municipal officials to work together more efficiently so they can process permits for micro-businesses faster.

In 13 cities, Arce said, the time required to register a business _ a small taco stand, a mini-beauty parlor _ has been slashed to two days. The results are modest, but promising. In the city of Puebla, 400 businesses have opened over the last year and a half, and 6,000 people now have formal work.

But analysts urging reforms think the program puts Mexico on the right track.

In Mexico City's colonial downtown, which bristles with jewelry stores and hole-in-wall workshops, a man who designs graduation rings said he's already registered as a micro-business.

But, like so many others, he under-reports his income.

"If I reported everything, the treasury would demand 15 percent tax on every single design I do. Then there is the engraving, the soldering. Imagine if everything was 15 percent more?" said the man, who spoke on condition that his name not be used.

The designer said that Mexicans have lived for so long with corruption that Fox faces a credibility problem as he attempts to legitimize and tax underground businesses. Fox has said that stimulating domestic businesses is a top priority, especially since the U.S. economy's recent slump cut foreign investment in Mexico and exports.

Fox is the first president in 71 years not to belong to Mexico's former ruling Institutional Revolutionary Party, but many are just as cynical about this government as they were about others during the one-party state.

"Maybe if the government would funnel taxes into where they really should be," the designer said, "then it would be a different story."

Gonzalo Vasquez, 42, is a classic <cash-economy> craftsman who probably earns more than the few hundred dollars a month he claims he earns.

Still, it's a hand-to-mouth existence polishing metal in a bathroom-sized hut he rents inside a parking lot where workers repair broken down cars. Vasquez said it has almost always been impossible for him to get a formal job because everywhere he goes he is asked "for papers," the term Mexicans use for a school diploma.

"I don't have any papers. I never got a chance to study," said Vasquez, an Indian who didn't even learn Spanish until he was 17. "I just tell people that the papers aren't the ones who do the work. I do the work."

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The following is chart material:

BANKS DOORS ARE SHUT TO MOST MEXICANS SEEKING PERSONAL AND BUSINESS CREDIT

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Percent of economically active Mexicans with access to commercial banking: 37 percent

Percent of population using community savings and loans: 7 percent

Percent with no access to any formal banking services: 35 percent

Source: National Savings and Financial Services Bank of Mexico

WITH LACK OF JOBS AND OPPORTUNITIES, MEXICO'S INFORMAL ECONOMY SOARS

YEAR----PERCENT OF TOTAL JOBS THAT ARE FORMAL----------PERCENT INFORMAL

1990----------89----------11

1991----------88.7---------- ----------11.3

1992----------87.4----------12.6

1993----------86.5----------13.5

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1994----------86----------14

1995----------81.9----------18.1

1996----------80.5----------19.5

1997----------80.3----------19.7

1998----------79.5----------20.5

1999----------78.4----------21.6

2000----------77.9----------22.1

2001----------75.3----------24.7

2002----------74----------26

2003----------72.5----------27.5

2004----------71.7----------28.3

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2005----------71.2----------28.8

2006----------70.7----------29.3

SOURCE: Center for Economic Forecasting of Mexico

NOTE: Years 2004 through 2006 are projections.

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