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Inteligencia Comercial

# ***“Mexico: Elections and Prospects for Structural Reform”***

**Center for Strategic and  
International Studies**

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Washington D.C.  
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**1. Strengths and weaknesses**

**2. Results**

**3. Conclusions**

# Strengths and weaknesses

## 1. Strengths

- **Macroeconomic stability**
- **Mexico's foreign trade policy**
- **Demographic bonus**
- **Political transition**

## 2. Weaknesses

- Taxation
- Protected sectors
- Labor market rigidity

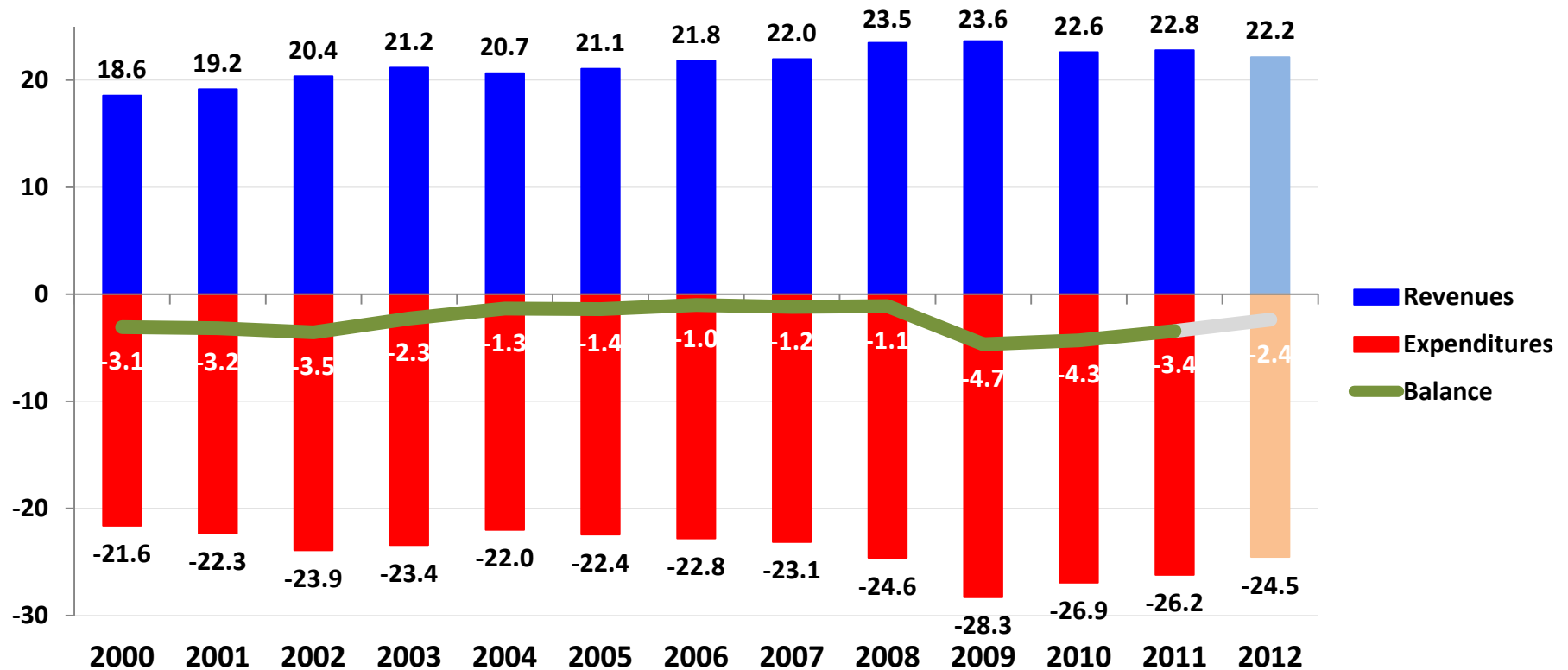
# Strengths

## Macroeconomic stability

- Political consensus on fiscal discipline.
- An independent central bank.
  - Flexible exchange rate policy.
  - Financial depth from pension funds.

# Macroeconomic Stability

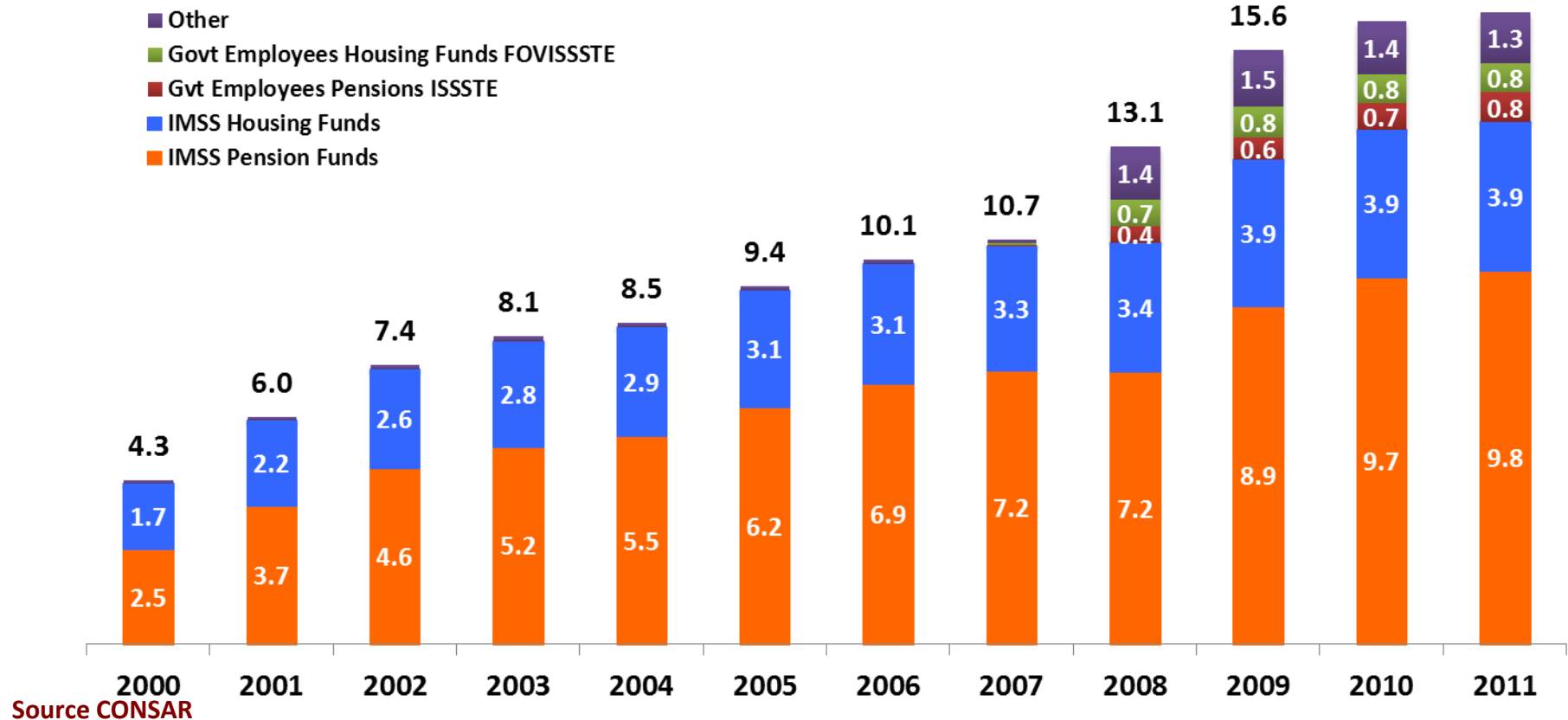
**Figure 1**  
**Public Sector Revenues and Expenditures**  
**Percent of GDP**



Source IMF

# Macroeconomic Stability

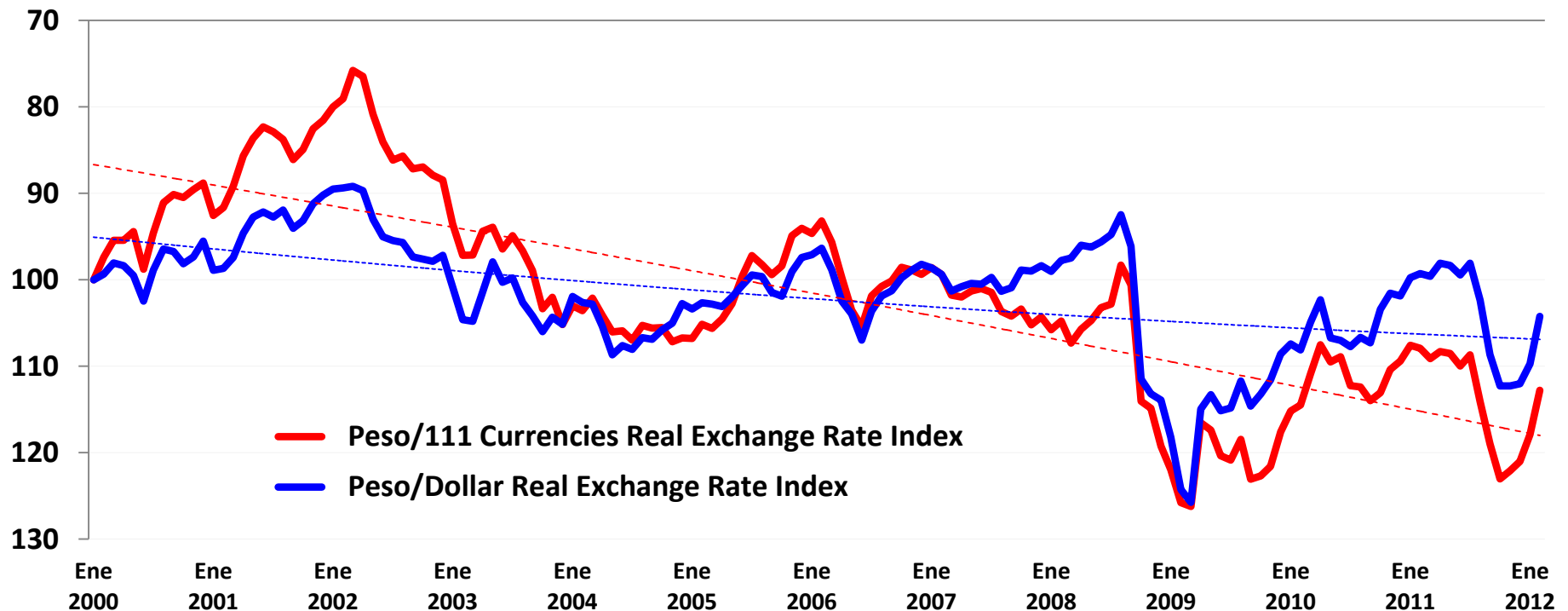
**Figure 2**  
**Pension and housing funds**  
**Percent of GDP**



# Macroeconomic Stability

**Figure 3**  
**Real Exchange Rate Indices 2000=100**  
**Inverted scale**

The peso real exchange rate shows a tendency to depreciate since 2002



Source Bank of Mexico and US BLS



# Strengths

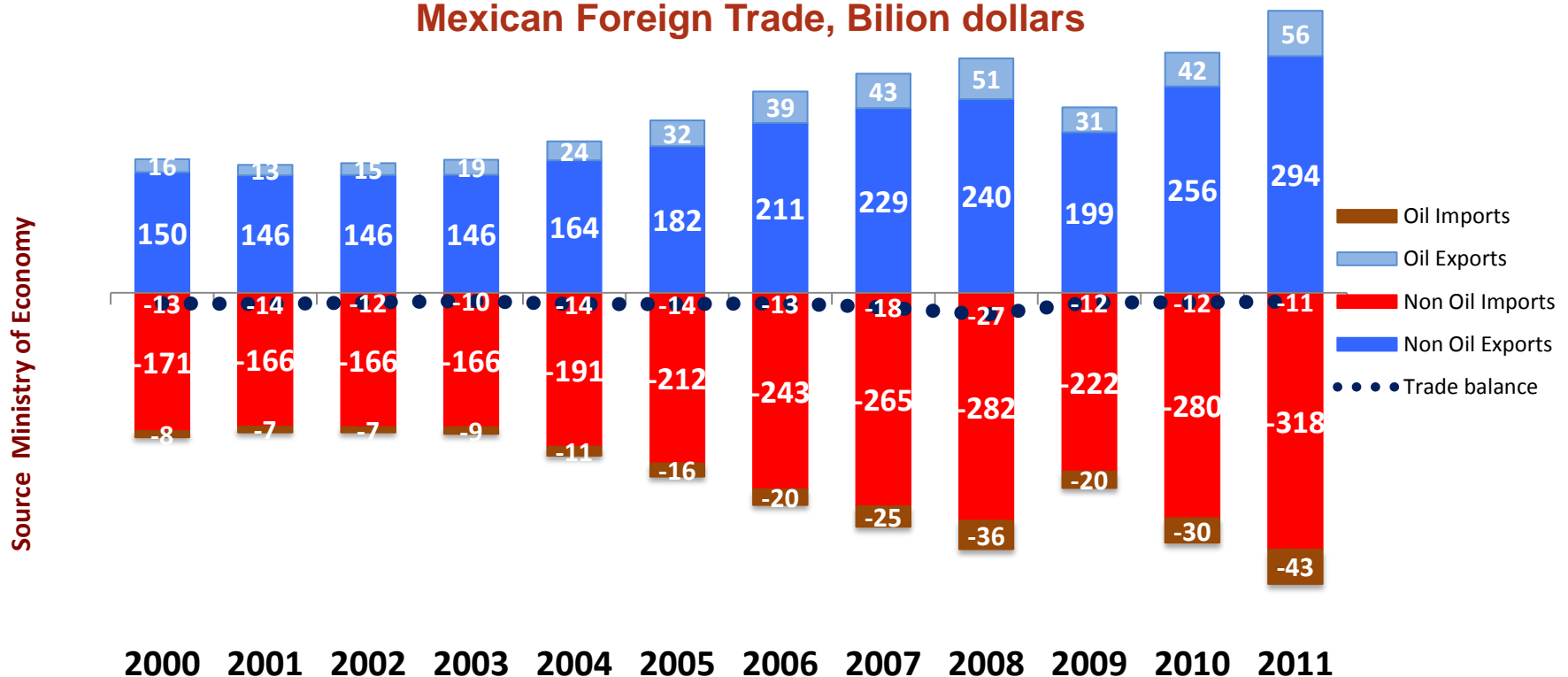
## Trade policy

- Foreign trade has been the main engine of growth for the last 20 years.
- Trade represents close to 60% of GDP.
- US\$265 billion in manufacturing exports.
  - Almost US\$90 billion of Mexican value added.
  - Manufactures: 76% of total exports.
- Trade policy as a “*straightjacket*” for economic policy.

# Mexico's foreign trade policy

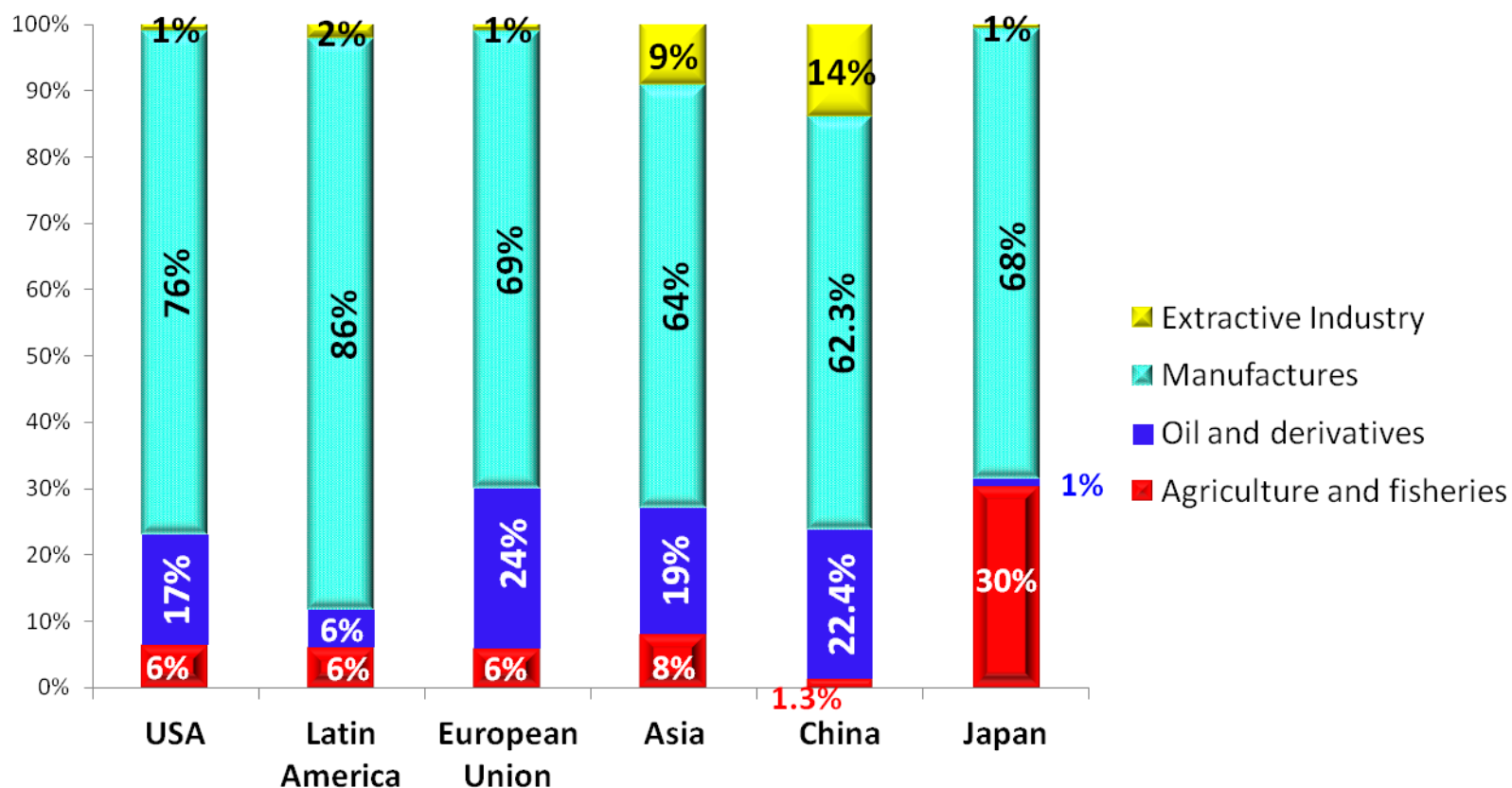
- Foreign trade has increased 114 % from 2001 to 2011, at 7% per year.
- Non oil exports increased by 96%.

**Figure 4**  
**Mexican Foreign Trade, Bilion dollars**



# Mexico's foreign trade policy

**Figure 5**  
**Composition of Mexican exports to selected markets.**  
**2011**

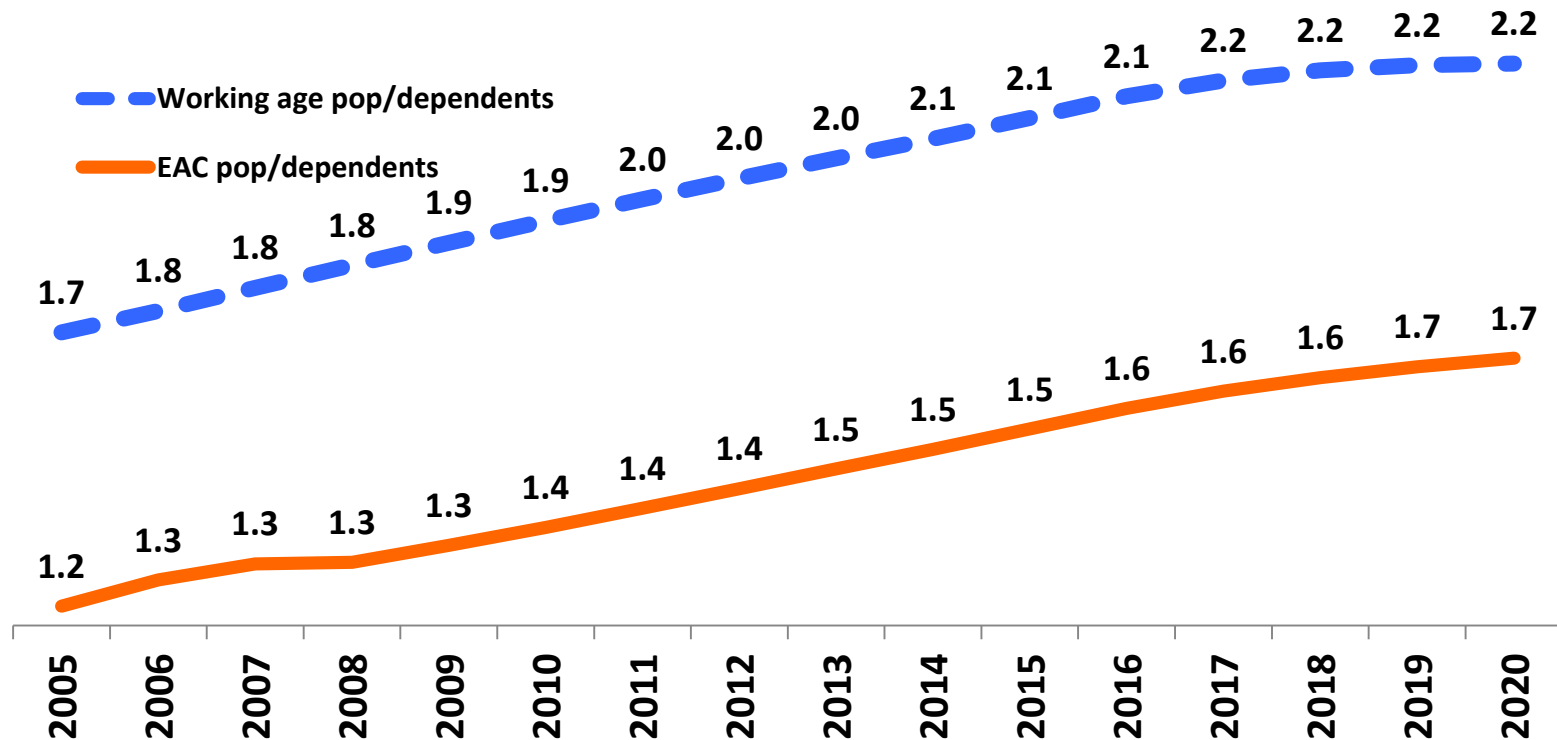


Source IQOM

# Demographic bonus

Working age population will grow faster than dependent population.

**Figure 6**  
**Population dependency ratios**



Source: Elaborated using information from the National Population Council (CONAPO)

# Political transition

Peaceful democratic transition:

- Political alternation.
- Certainty for investors.
- No abrupt changes in economic and trade policy.

# Strengths and weaknesses

## 1. Strengths

- Macroeconomic stability
- Mexico's foreign trade policy
- Demographic bonus
- Political transition

## 2. Weaknesses

- **Fiscal policy**
- **Protected sectors**
- **Labor market rigidity**

4 main problems:

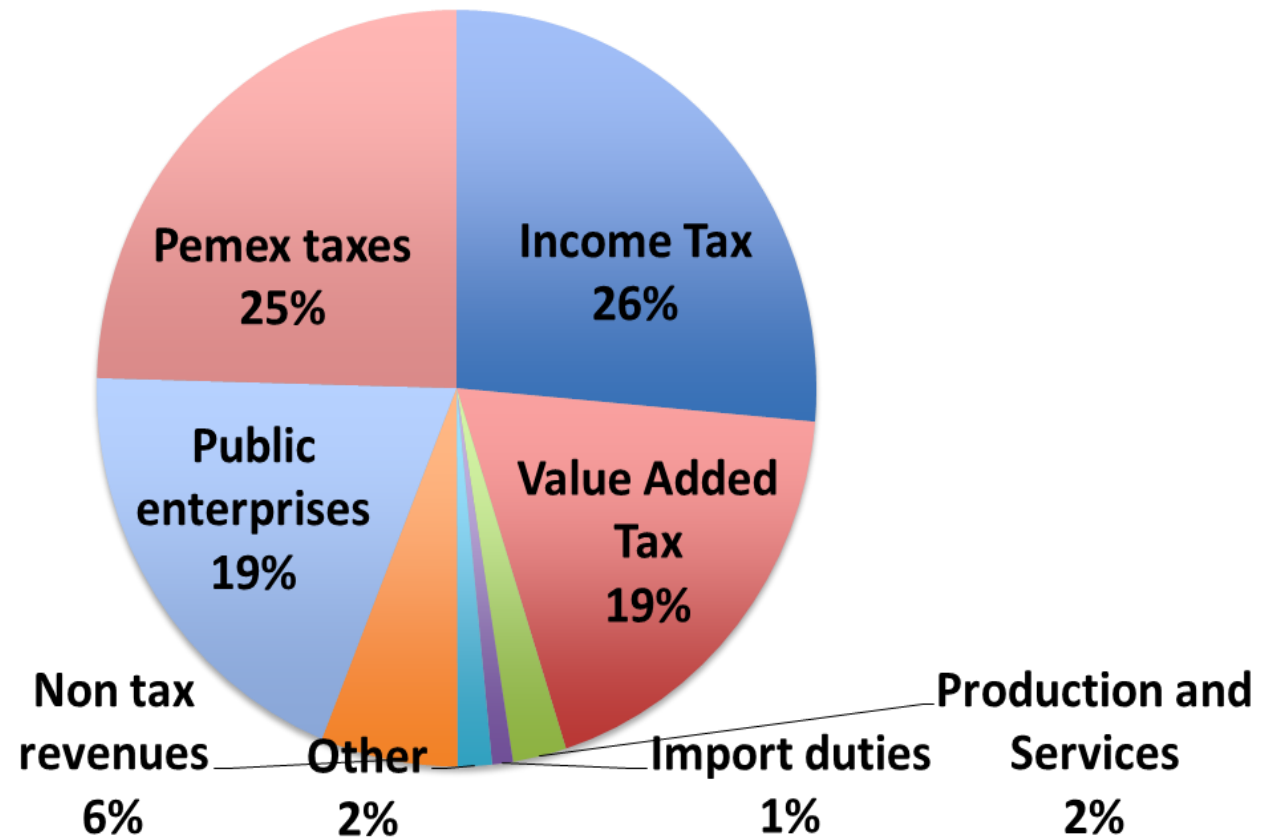
- Excessive dependency on oil revenues.
- Low taxation.
- Excessive social security burden in the formal market (payrolls).
- Income and consumption tax loopholes.

Public sector revenues in 2011 were 20% of GDP, including taxes on oil.

- 25% of public sector revenues due to Pemex.
- 75% come from taxes
  - Consumption
  - Income
  - Import duties
  - Production and services



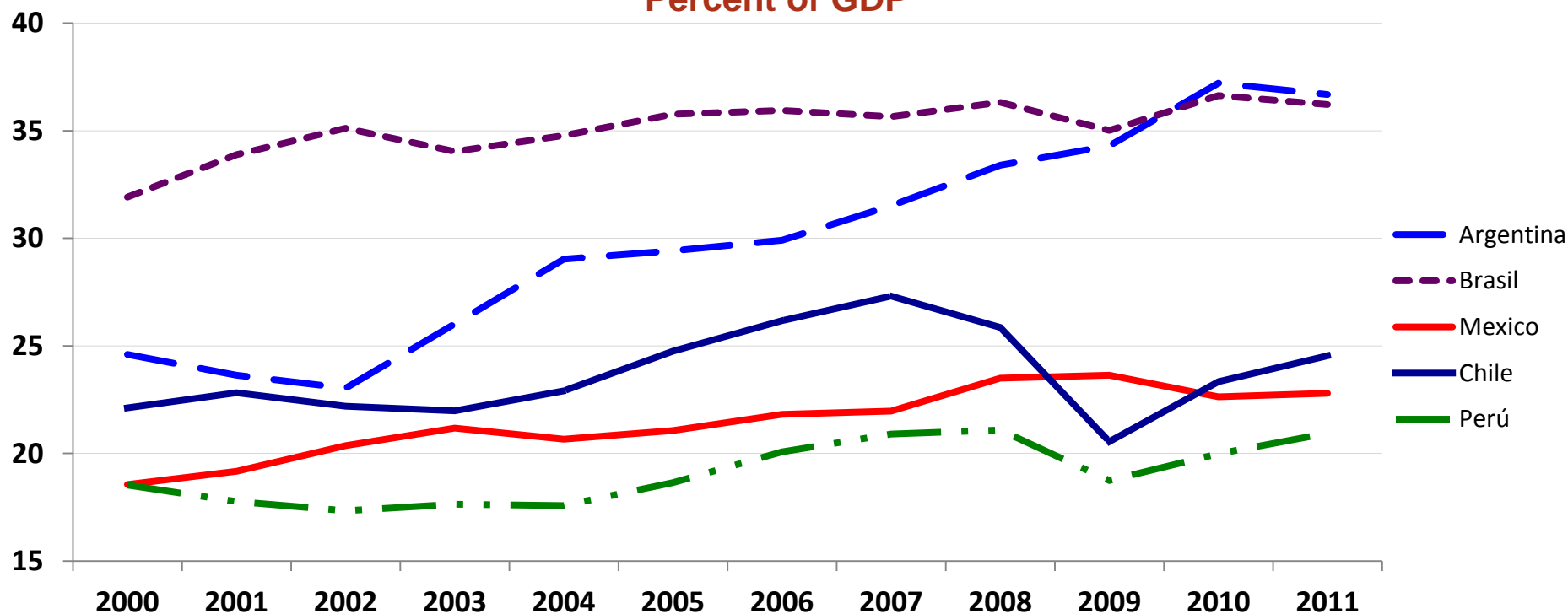
**Figure 7**  
**Public sector revenue, 2011**



Source Ministry of Finance

Mexico's public sector revenues are among the lowest in Latin America.

**Figure 8**  
**Public sector revenue**  
**Percent of GDP**



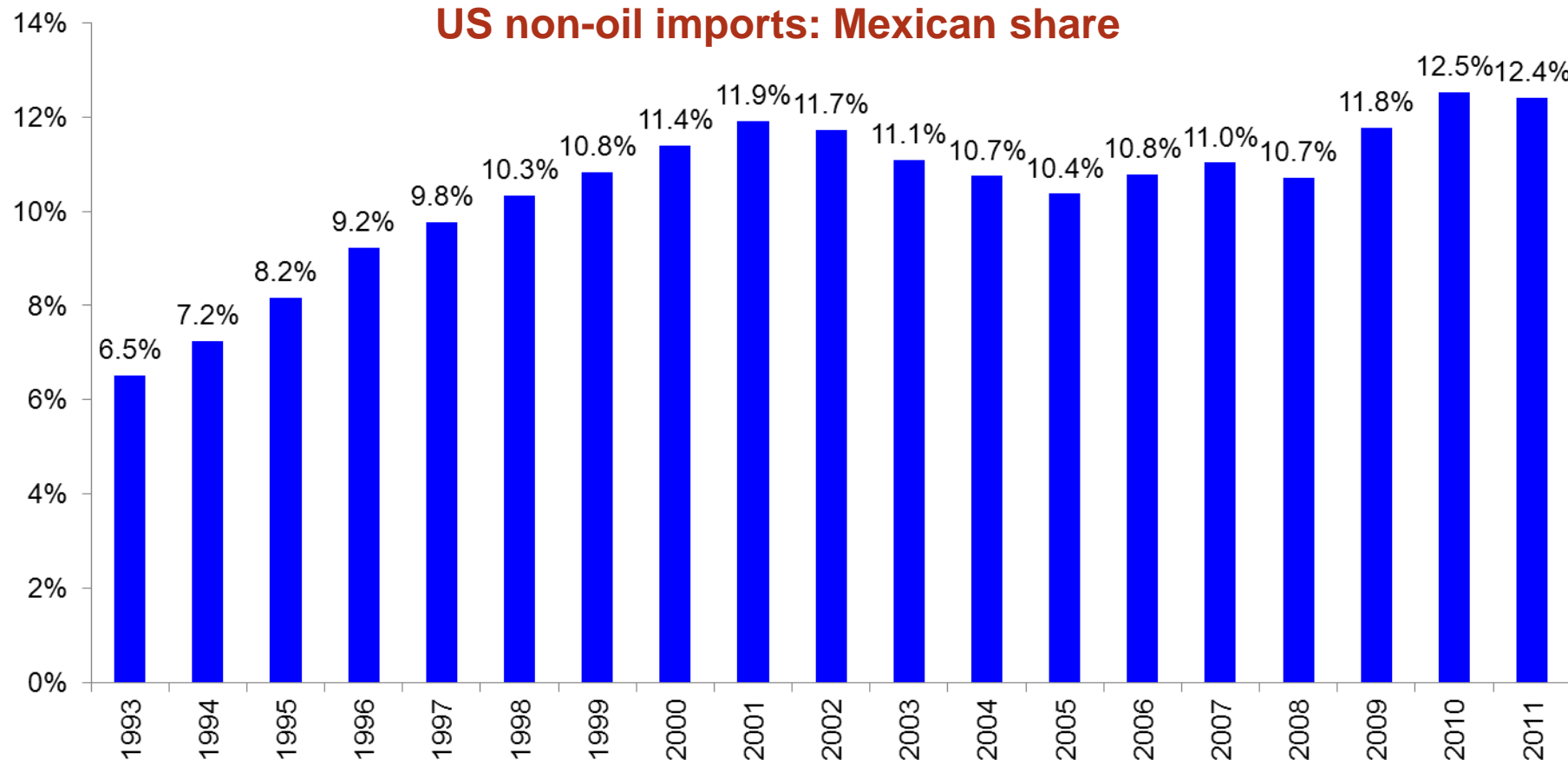
Source IMF

# Competition in domestic markets

- Energy sector
  - Oil Industry
  - Electricity
- Telecommunications
- Transportation sector

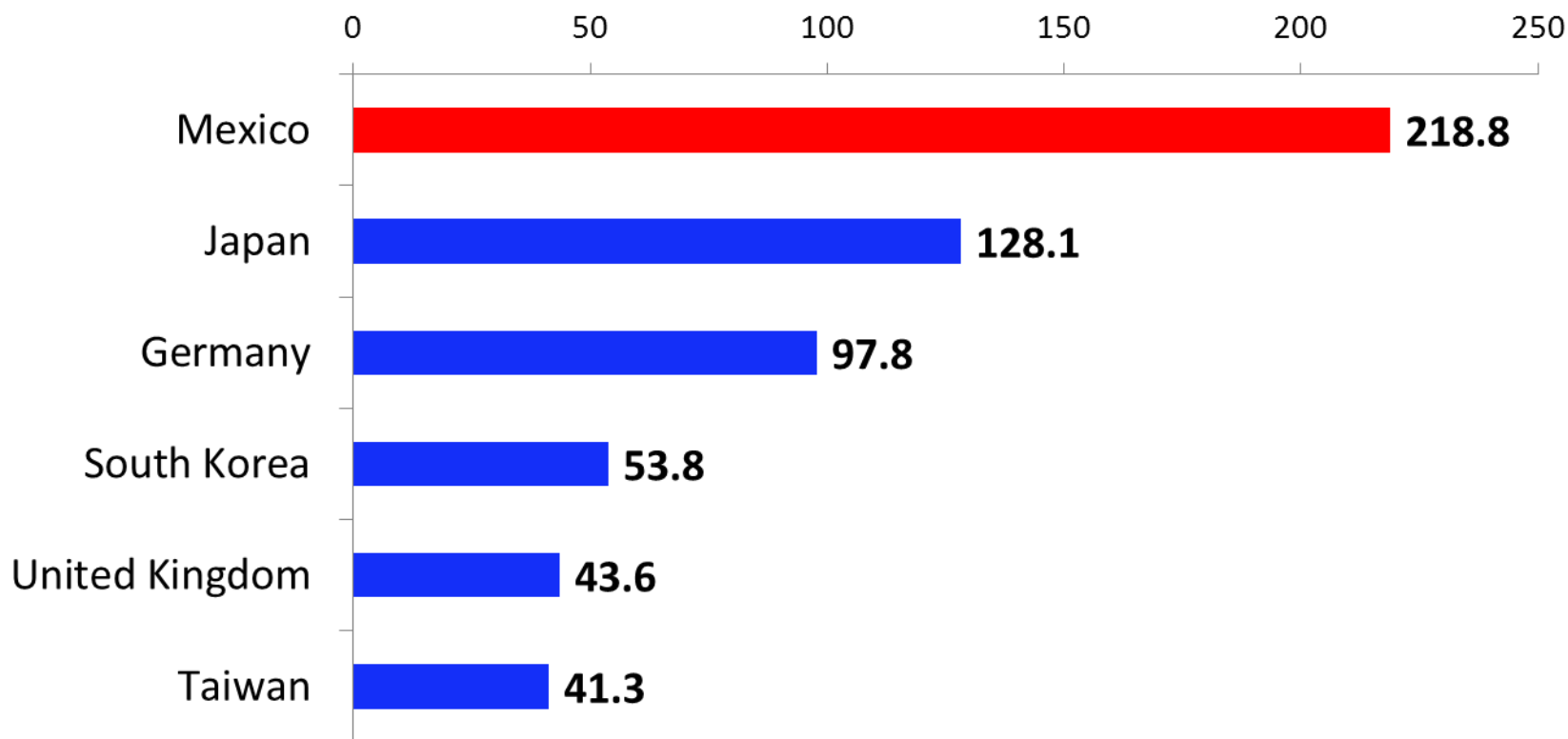
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**Figure 9**  
**US non-oil imports: Mexican share**



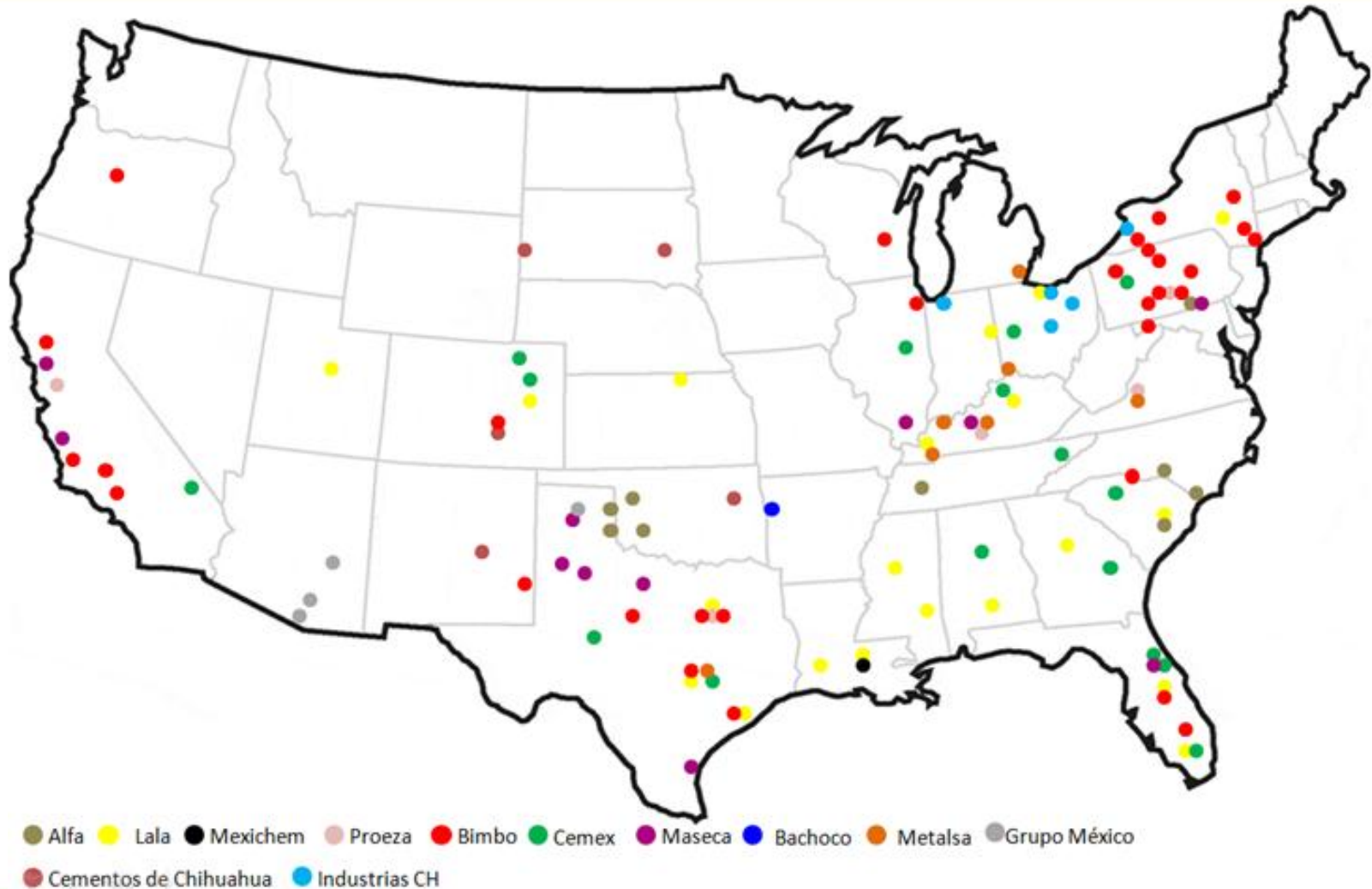
Source IQOM,

**Figure 10**  
**US non-oil imports, billion USD**



Source USITC

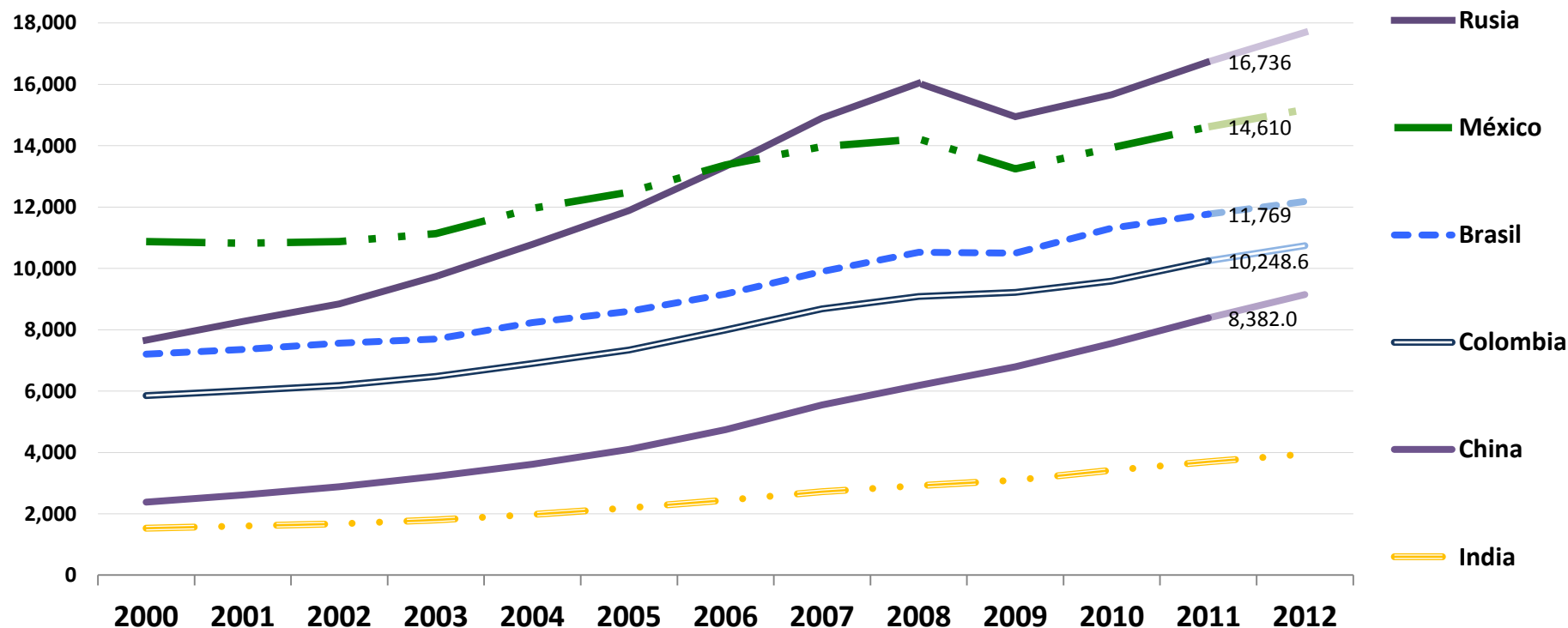
# Mexican companies in US



# Results

Mexico has maintained growth of GDP per capita at PPP exchange rates.

**Figure 11**  
**GDP per capita in USD**



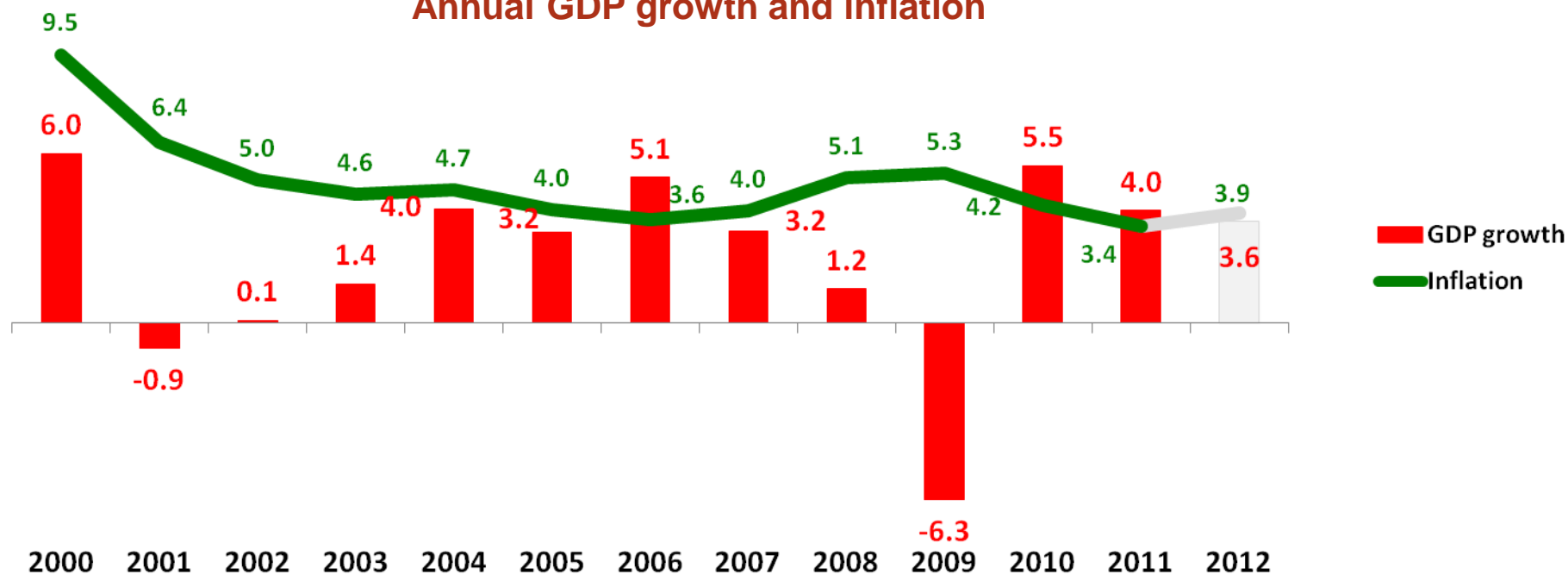
PPP= Purchasing Power Parity Source IMF



# Results

- Sluggish economic growth.
- Real GDP grew 23 % since 2001.
- Inflation 3% and 4% per year, lower than BRICS.

**Figure 12**  
**Annual GDP growth and inflation**



Source Bank of Mexico

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**1. Strengths and weaknesses**

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# Conclusions

What needs to be done?

- Fiscal reform:
  - To reduce public revenue dependence on oil revenue.
  - Social security burden reduction.
  - Eliminate income and consumption taxes loopholes.

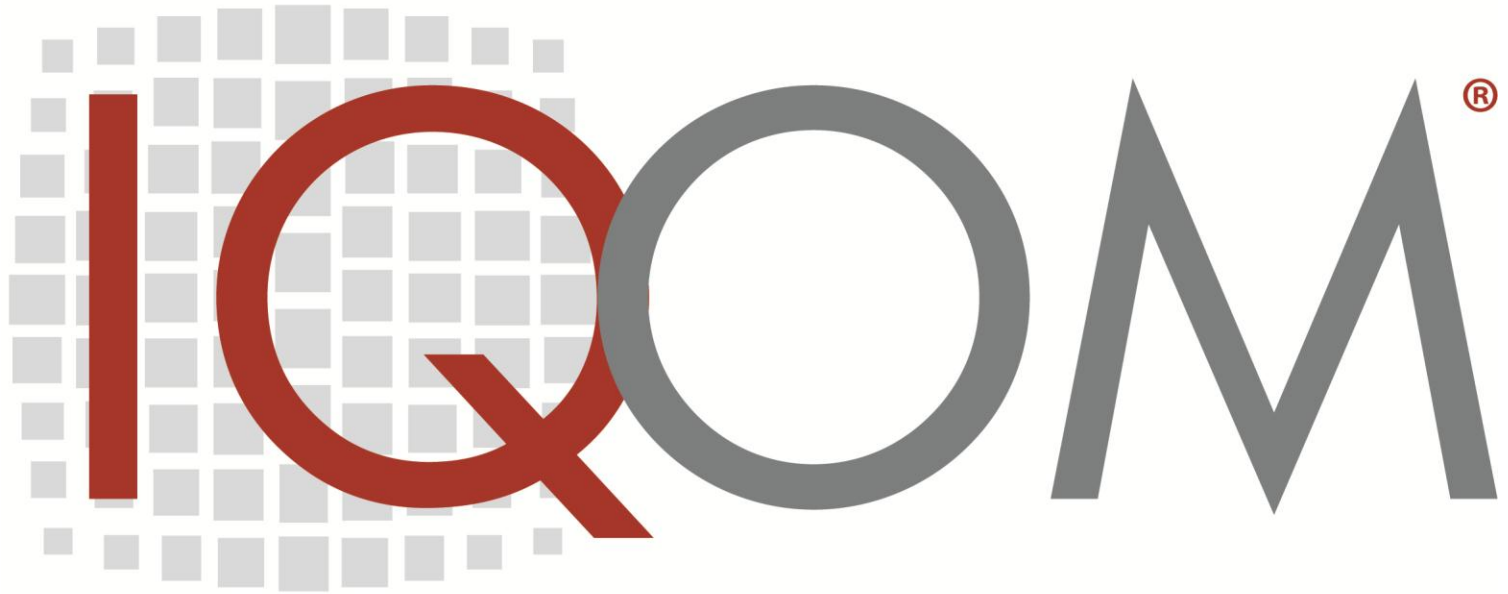
# Conclusions

What needs to be done?

- Liberalize closed sectors.
- Increase competition in:
  - Energy
  - Transportation
  - Telecommunications
- More investment in human capital and infrastructure.

# Conclusions

- Mexico must confront the challenges in the domestic market with the same creativity and commitment with which the country designed and implemented foreign trade policy two decades ago.



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