

Instituto Mexicano para la Competitividad A.C.

# How are things in Mexico?

## Brookings Institution

Washington, D.C.

June, 2008



# Today



- What is IMCO?
- How deep are Mexico's competitiveness issues?
- Can Mexico hold its own in the near and longer term future?

# We are a competitiveness think-tank

- Study issues affecting Mexico's performance in the global economy
  - Non-partisan
  - Not-for-profit institution
- Influence strategy based on *fact-based analyses* of public policy choices and their consequences

# Our Board of Directors ensures our objectivity

## Board of Directors

### Strategy and institutional policy

- Planning
- Values and institutional development

### Audit and finance

- Permanence
- accountability

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# What we believe

1. Uphold principles, not interests
2. Objective and non-partisan
3. Participate in public policy debate using facts and analyses
4. Invest in talent development and intellectual assets
5. Act pragmatically
6. Communicate effectively
7. Walk the walk; talk the talk

# Today

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- Can Mexico's economic sectors hold their own in the near and longer term future?

# Our definition of competitiveness

## Competitiveness

A country's  
ability to attract  
and retain  
investments and  
talent

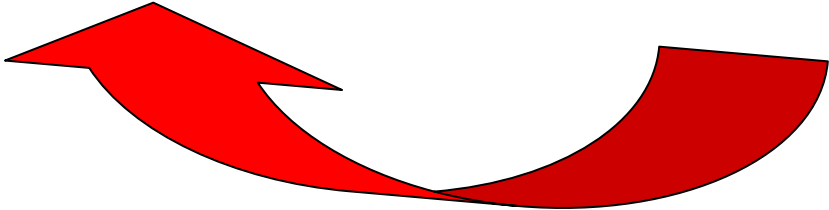
# Our mental model

**Sustainable  
Economic  
Performance** = *f* (*Competitiveness*)

Weak  
force

**Economic  
performance**

**Competitiveness**



**Strong  
force**

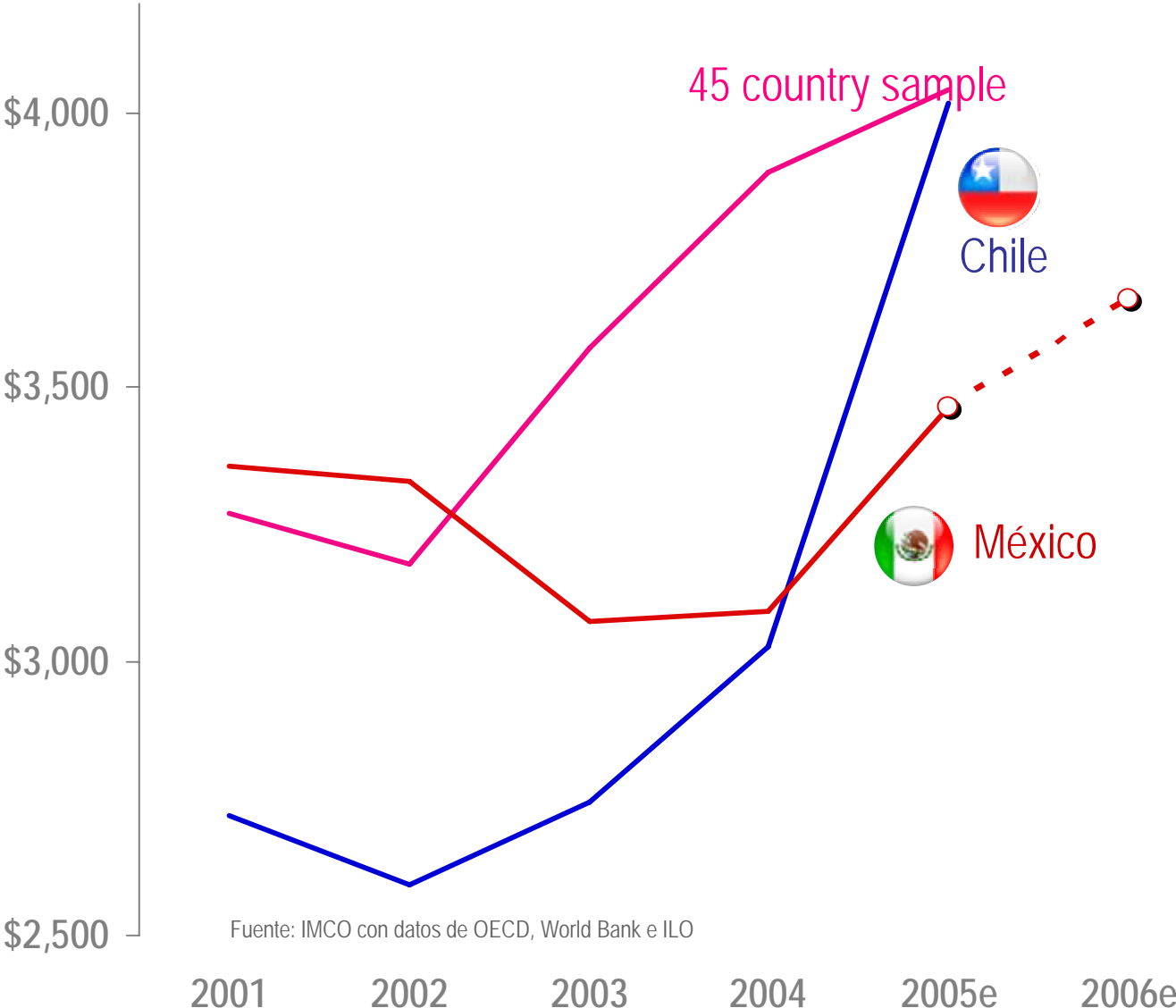


# Competitiveness a function of excellence on 10 fronts

1. Objectivity and reliability of legal system
2. Sustainability of environment policies
3. Quality of human capital
4. Macroeconomic stability
5. Functionality and stability of political system
6. Factor market efficiency
7. Availability of world-class precursor sectors
8. Efficiency and effectiveness of governments
9. Impact of international relations
10. Vigor of competition in product and service markets

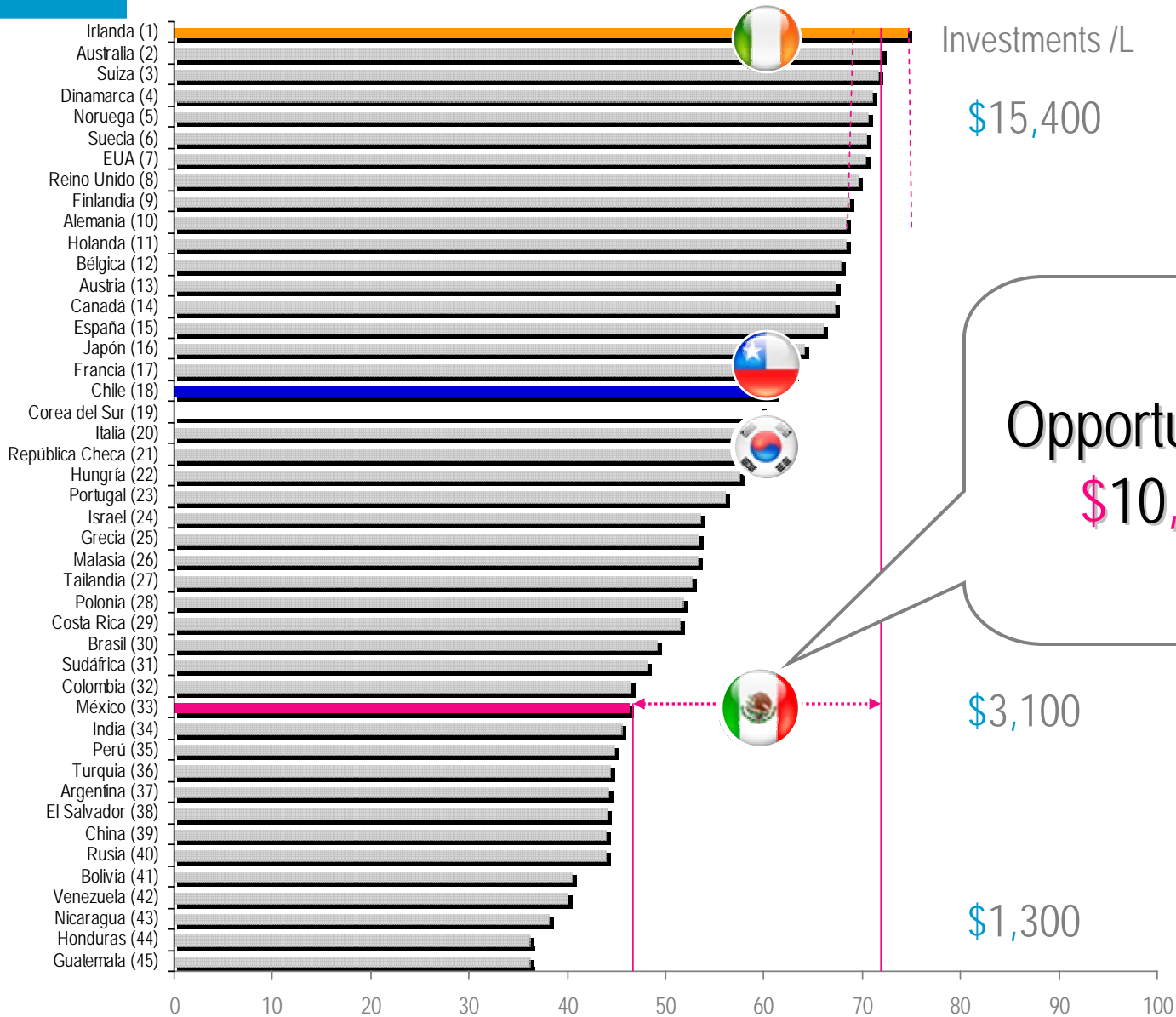
# Investment / Labor force

(dollars)



Fuente: IMCO con datos de OECD, World Bank e ILO

# IMCO's competitiveness rankings



## Relative positions

2006

2004

General index

↓33

30

Sectors in competition

↓29

28

International relations

↓30

27

Government efficiency/effectiveness

↓32

26

Precursor sectors

↑34

35

Factor market efficiency

↑35

44

Political system functionality

↓32

27

Macroeconomic stability

↓30

28

Human capital

= 34

34

Environmental sustainability

= 40

40

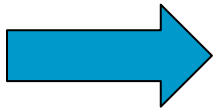
System of law

↓33

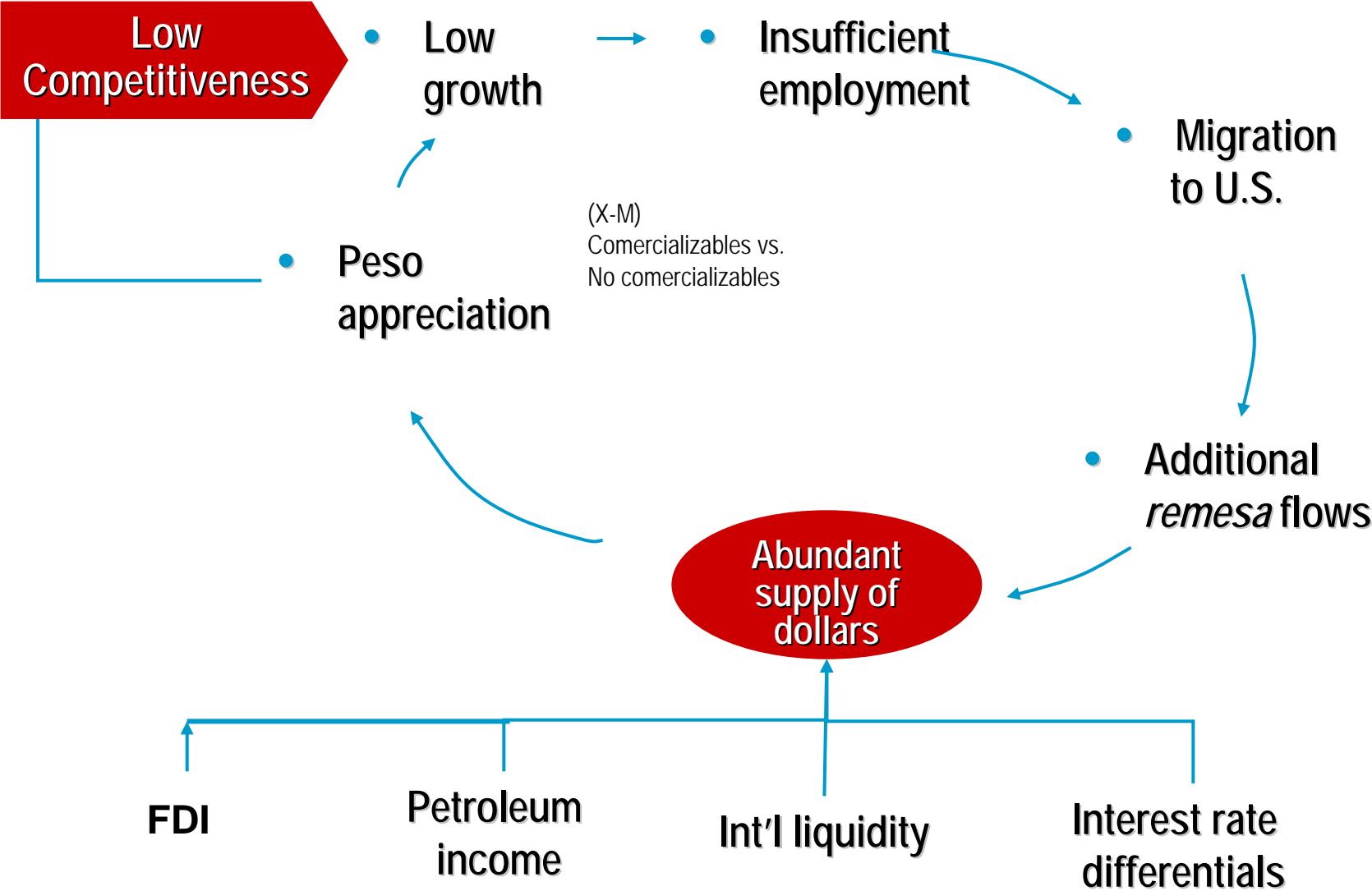
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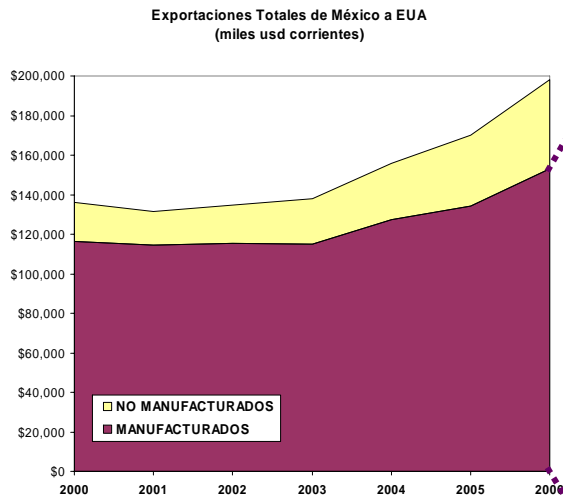
# Mexico's *Dutch Disease* could get worse in the short run



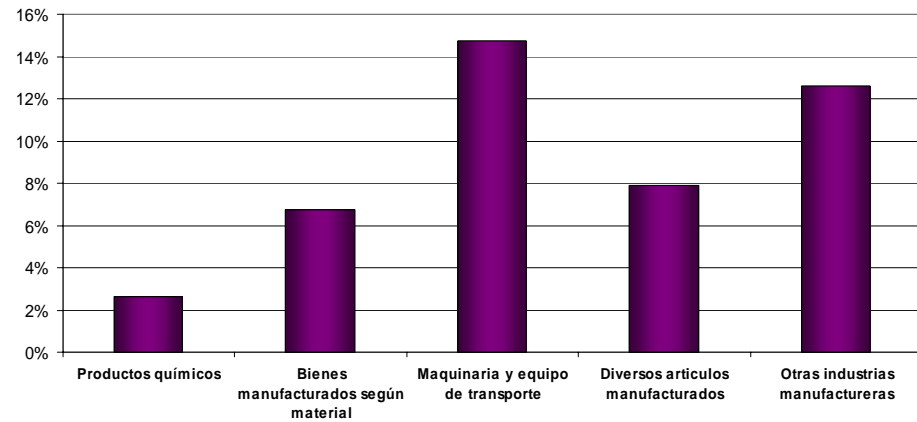
## U.S. down-turn is painful but not fatal for Mexico's economic performance

- Mexican exports closely linked to U.S. manufacturing
  - Auto sector
  - Electronics and light manufactures
- Other exports revenues also affected
  - Tourism highly pro-cyclical
  - Transport services
- Remittances already falling
  - Employment in construction and services off
  - Disposable income of migrant workers falling

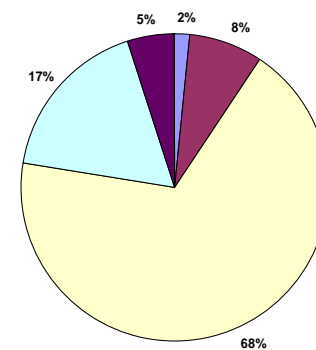
# For instance, the critically important automotive sector is in trouble...



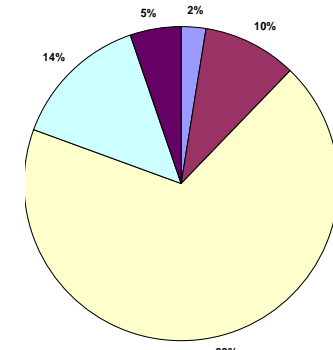
**Exportaciones Manufactureras de Mexico a EUA (porcentaje del total mundial)**



- Productos químicos
- Bienes manufacturados según material
- Maquinaria y equipo de transporte
- Diversos artículos manufacturados
- Otras industrias manufactureras



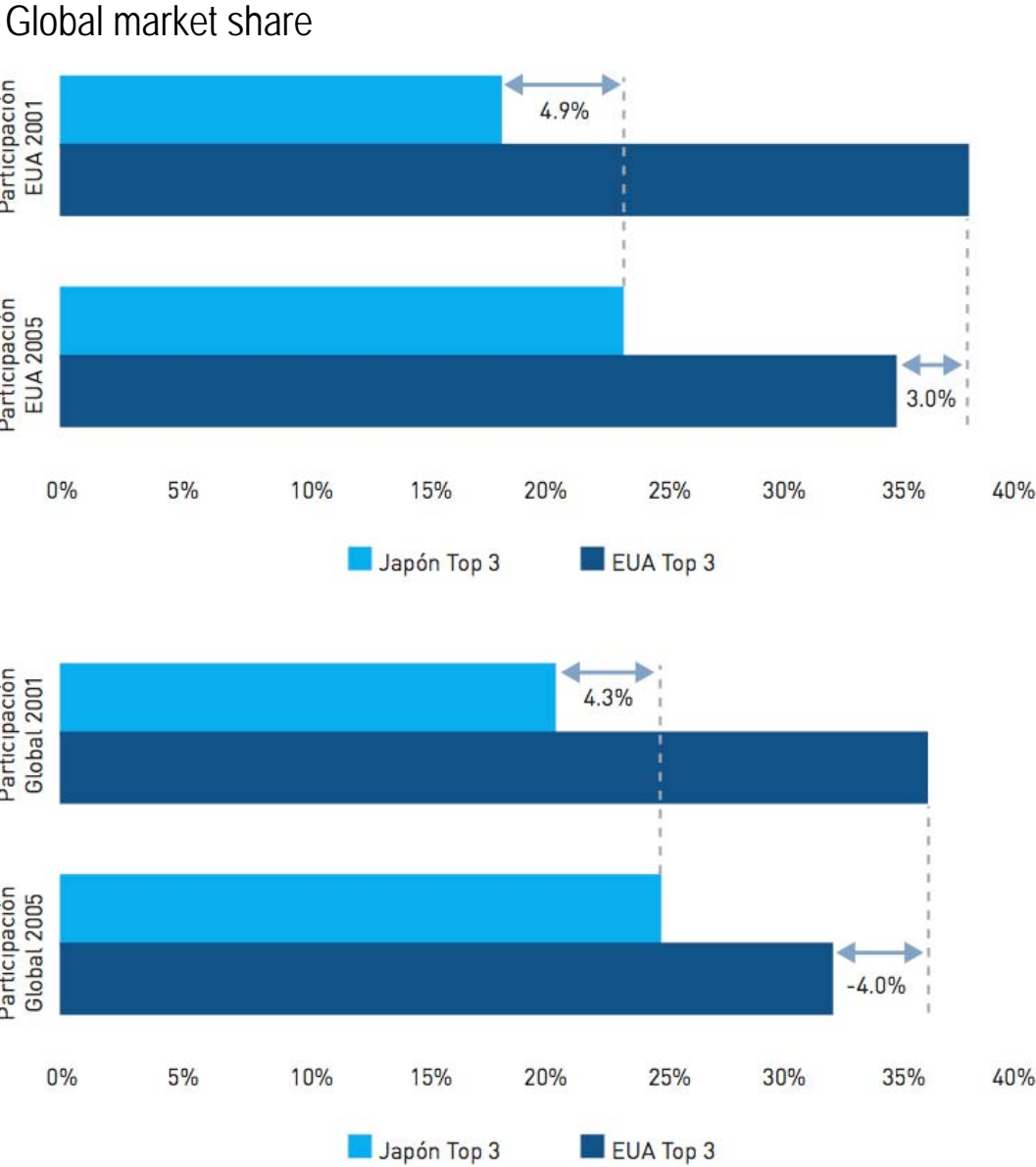
**2000**



**2006**

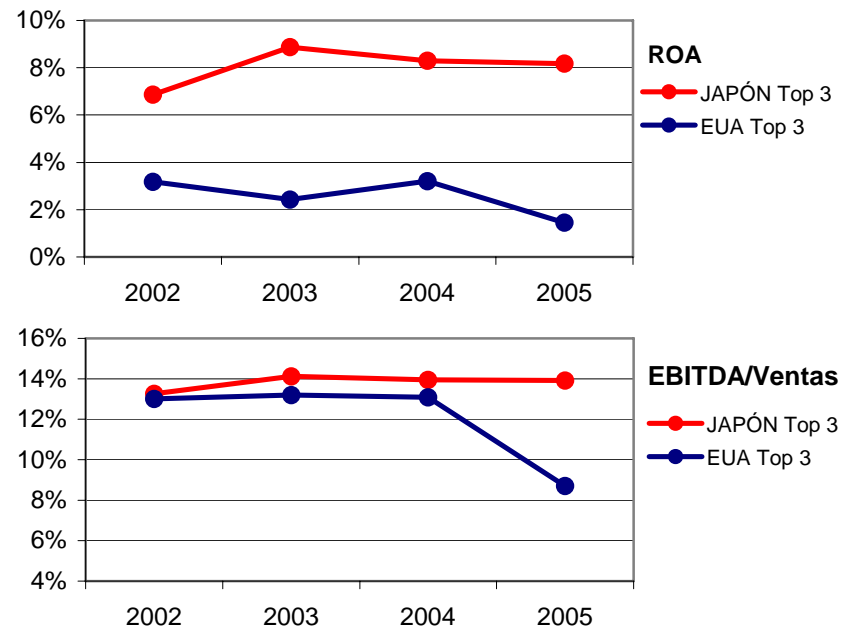


# Some of its problems have deep roots ...



Financial and structural weaknesses are coinciding with recession.  
This is scary, but Mexico is part of the solution, not the problem

- ROA y EBITDA/Sales

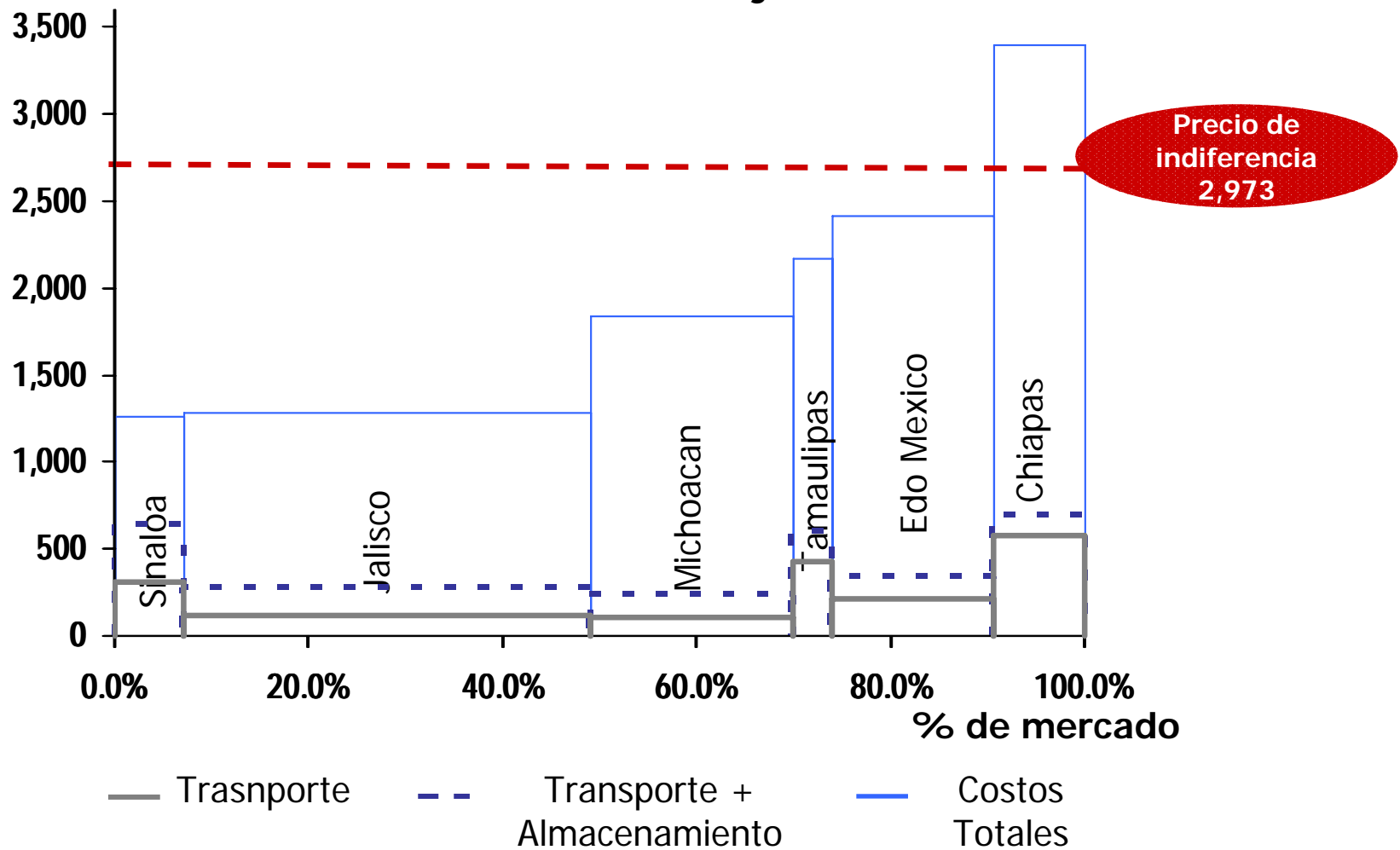


EUA Top 3 considera la información financiera consolidada de GM, Ford y Chrysler  
JAPÓN Top 3 toma la información de Toyota, Nissan y Honda

Fuente: IMCO con datos de Forbes.com

Moreover, luck has recently been on our side: The final step towards an integrated agricultural market came a good time for Mexico's corn growers

**Costos Maíz en Guadalajara 2007**



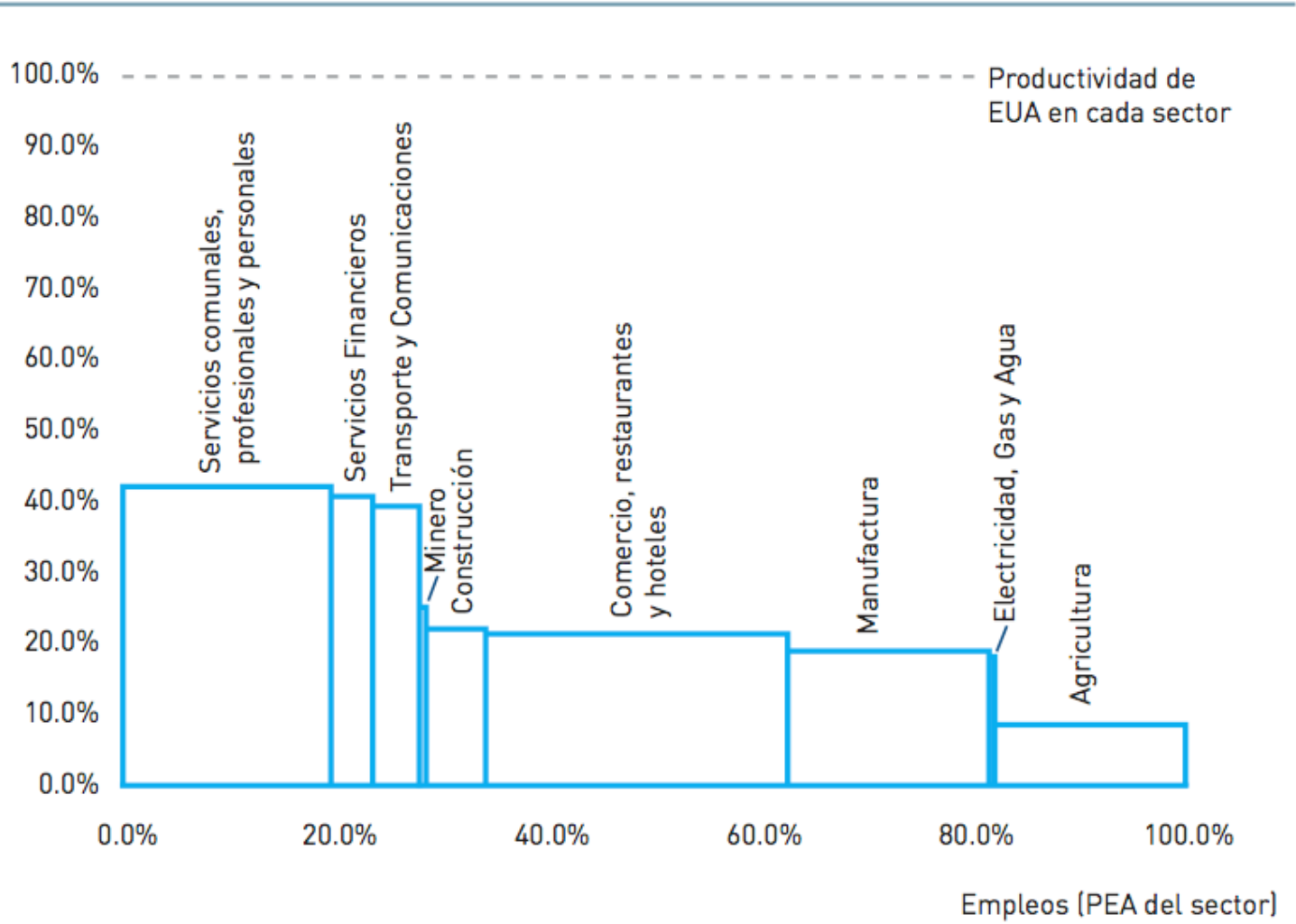
Fuente: FIRA, ASERCA

Hence, recession and other short term issues are not the scariest problems we face.

- Fiscal accounts are stable because
  - Oil prices are at record levels
  - Production drops have been offset by price increases
  - IETU is making up revenue short-falls
- Mexico's financial system is healthy
- "Natural" counter-cyclical forces are at work
  - Many new entrants joining labor force
  - Construction and infra-structure spending at all-time highs
- Depreciation vs. the Euro is curing our *Dutch Disease*

So, should focus on the really big fish, such as why our economy's real sectors do not respond to competitive stimuli.

**Gráfica 10-8: Productividad laboral relativa: Estados Unidos y México**



Fuente: IMCO, con datos de INEGI (2002), OIT (2001) y OCDE (2001).

# ...and why labor productivity is stagnant

	% de Empleo De 2004	CAGR Real 1988- 2004	CAGR Real 2000- 2004
Agricultura	20	-1.6	0.5 %
Minería	0	0.0	-0.2
Manufactura	12	-0.5	-0.8
Electricidad, gas y agua	1	0.0	0.5
Construcción	12	-0.1	0.2
Comercio, hoteles y restaurantes	19	-1.5	-1.4
Transporte, almacenaje y comunicaciones	6	1.2	0.5
Servicios financieros e inmobiliarios	4	3.1	1.3
Servicios comunales, profesionales y personales	26	2.8	0.8
Total economía	100.0 %	0.8 %	0.3 %

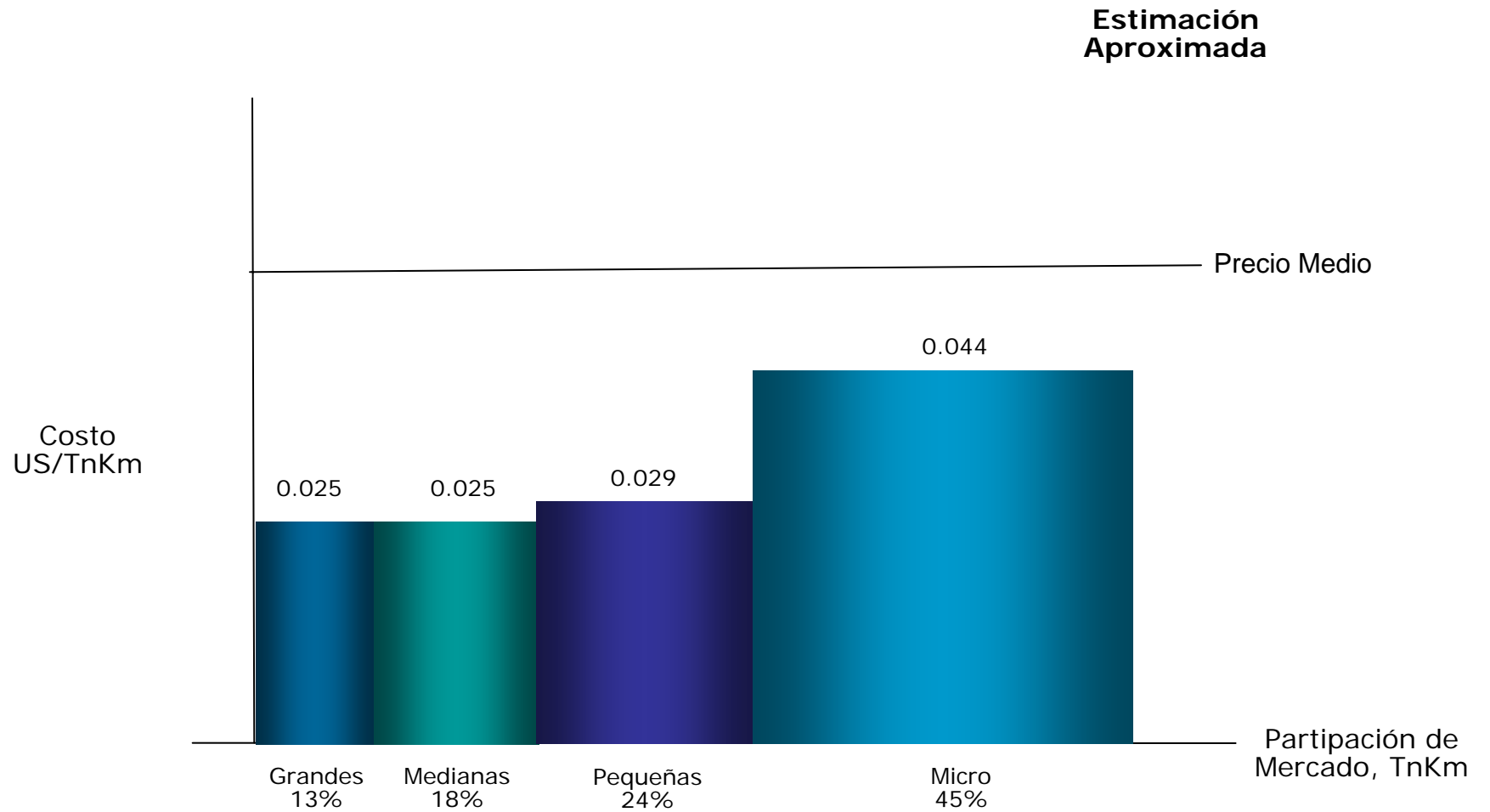
The is that this is due to chronic problems, such as lack of competition in vital sectors (i.e.telecoms)

## Mexico's posición in OECD rankings

30 countries, tariffs ajusted by PPP






Service	Usage intensity		
	High	Medium	Low
Fixed residential	7th highest	6th highest	3rd highest
Fixed business		4th highest	
Cellular	10th highest	14 highest	2nd highest
Broad band Internet (prece/MBps)		3rd highest	

# ... or trucking



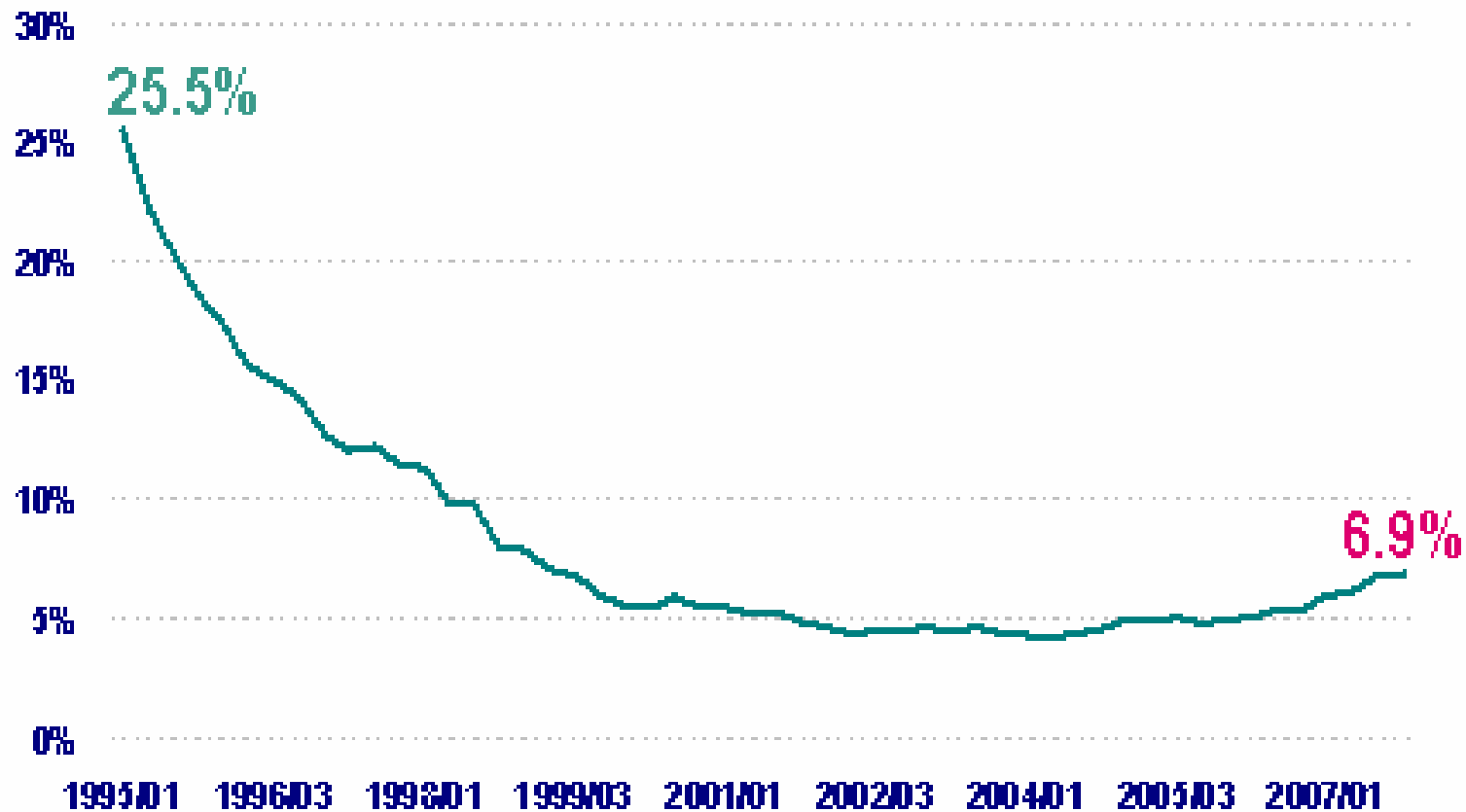


# ...or the fact, that despite an open economy, prices differences with ROW are still enormous

	A noviembre 21-2007	 Profeco.org	 Activeshoppers.co	Difference
 Samsung, Ln 32r71bd. Color 32 Plgs. Pantalla Cristal Liquido.	<b>Minimum</b>	\$12,998	\$8,360	55%
	<b>Maximum</b>	\$13,499	\$11,000	23%
 General Electric, Tbs 17 Ya, 486 Dm3.	<b>Minimum</b>	\$6,599	\$4,939	33%
	<b>Maximum</b>	\$8,599	\$6,039	42%
 Horno de Microondas, General Electric, Jes1142 Sfe. 1.1 Pies Cubicos.	<b>Minimum</b>	\$1,551	\$825	88%
	<b>Maximum</b>	\$1,999	\$1,386	44%
 Samsung, Dvd-hd 860. Cd, Dvd, Vcd, Svcd, Mp3, Jpeg, Divx, Hdmi.	<b>Minimum</b>	\$949	\$770	23%
	<b>Maximum</b>	\$1,687	\$990	70%

# Access to financing is also a problem

## Crédito otorgado por la banca comercial a las empresas (Cartera vigente, como % del PIB)

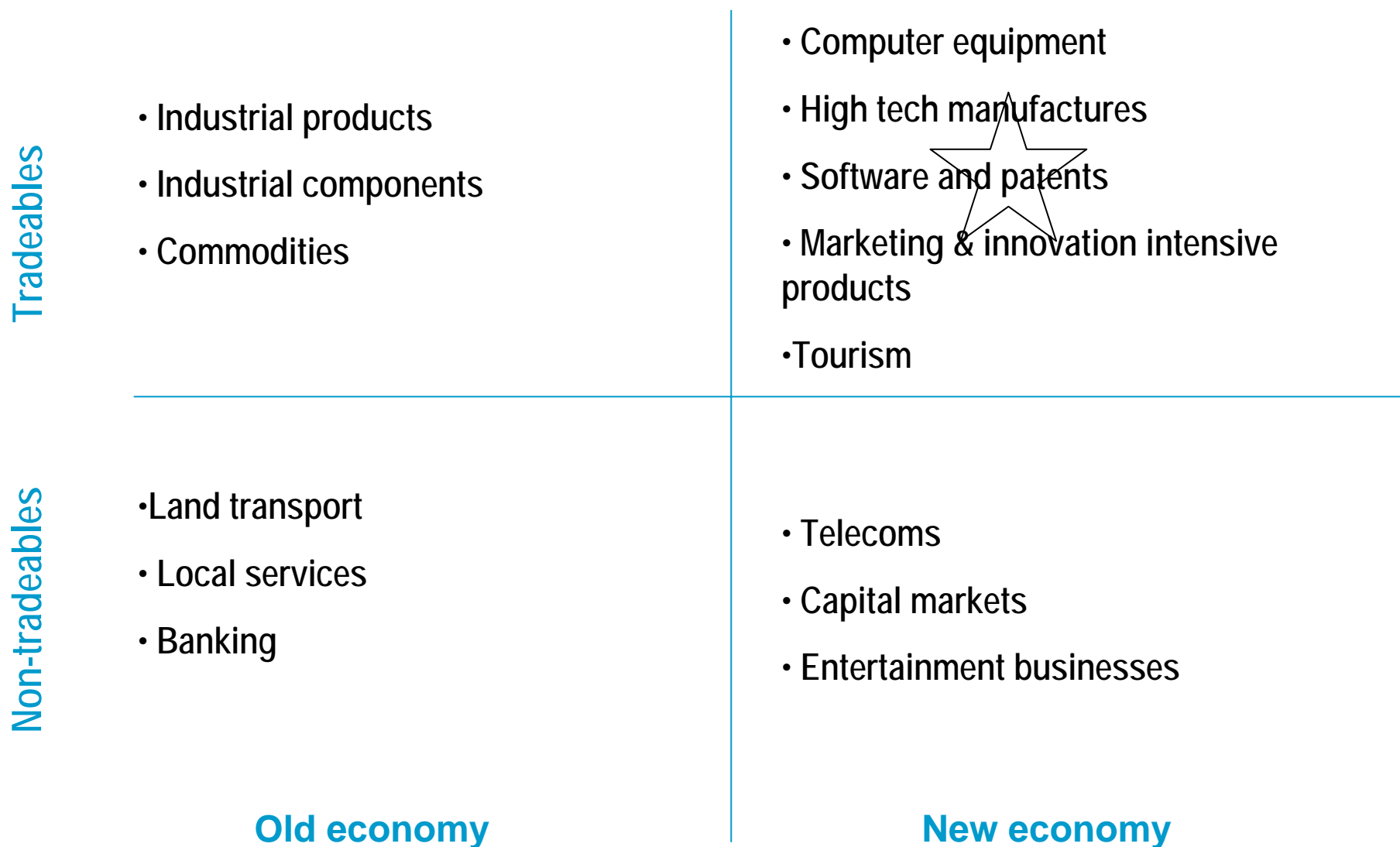


Fuente: IMCO, con datos de Banco de México.

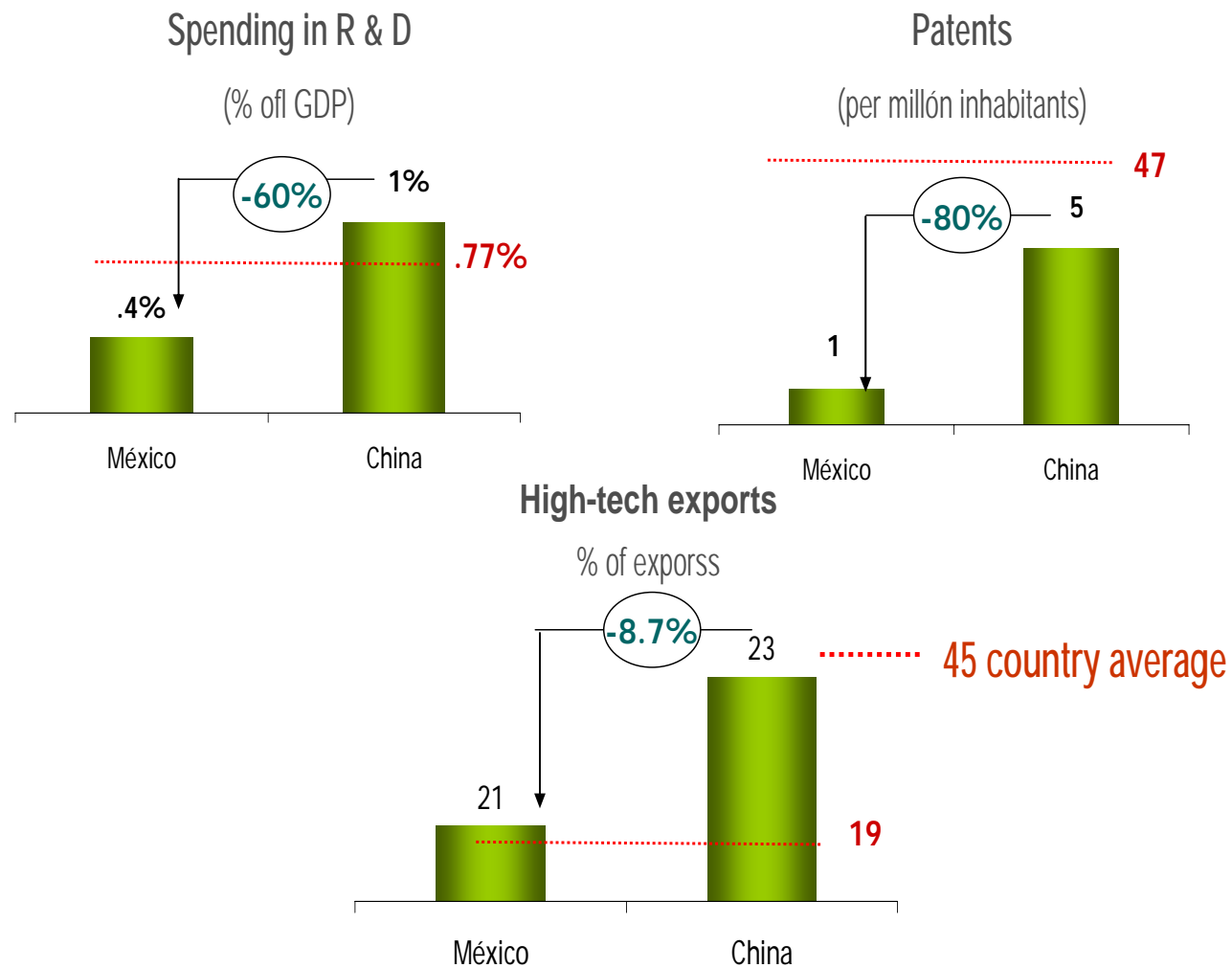
## And we have other critical issues

- Energy reform is a flip a coin
  - Moreover, critical issues not addressed
  - Monopoly conditions will remain
- Education reform has been negotiated
  - How real will it be?
  - How rapidly will we feel its effects?
- Health sector reform totally stymied
- Labor reform in a holding pattern
- Judicial reform tied to success battling organized crime

# Moreover, we need to think more about the future

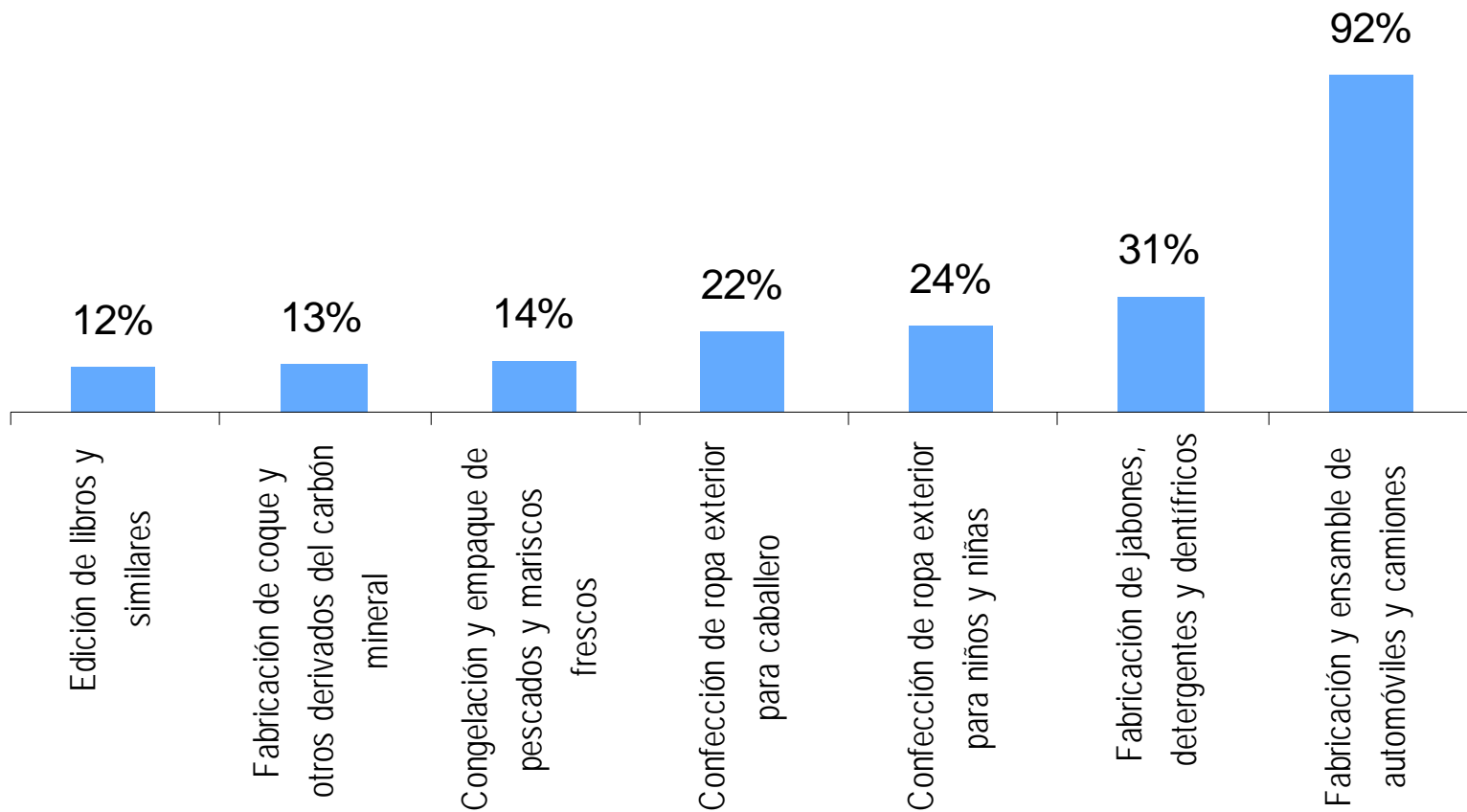


# For instance, we have significant lags in science & innovation



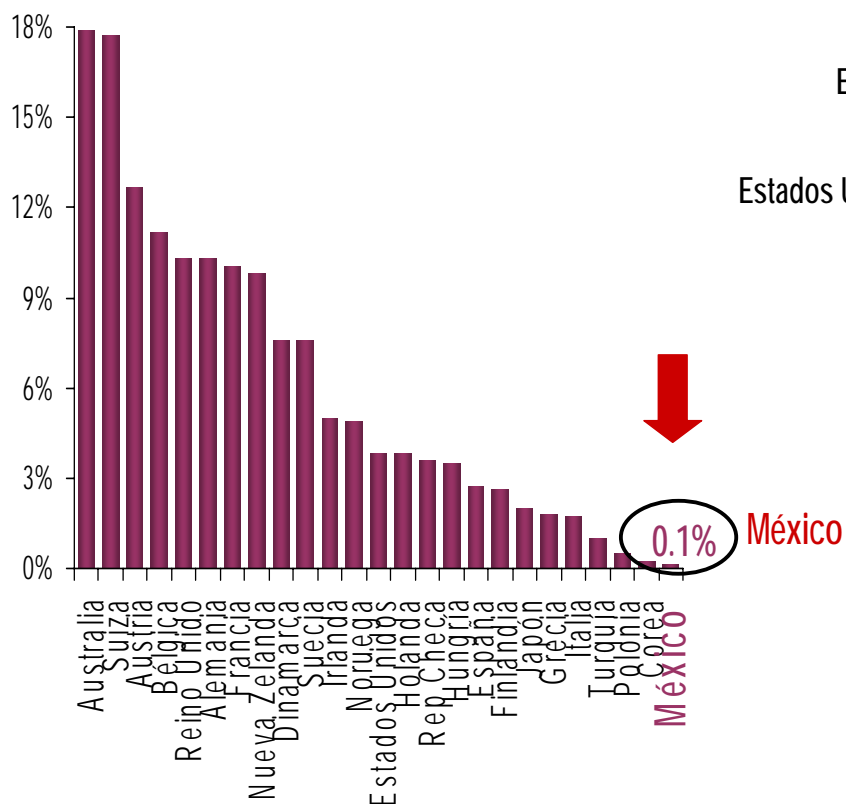
# Innovation still contributes little to labor productivity growth

Residual de Solow

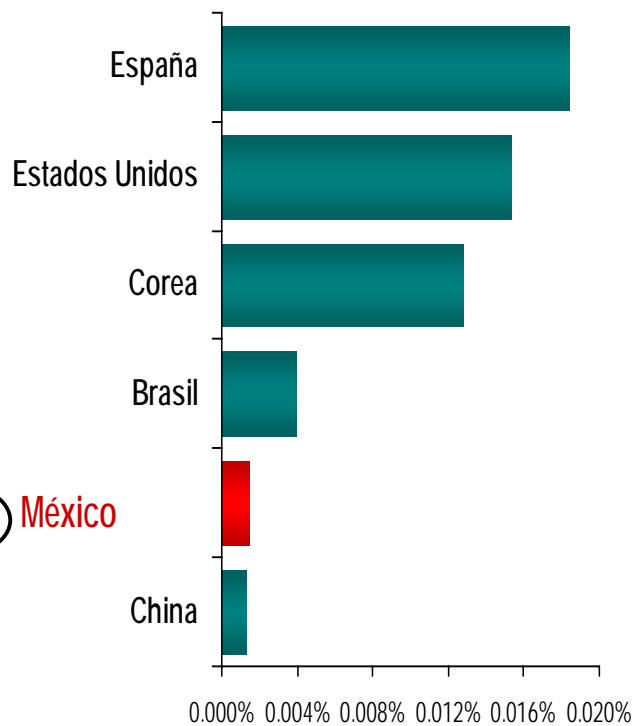


# Our stock of human capital is weak...

Porcentaje de alumnos extranjeros en Educación terciaria 2002



Doctores en Ciencias y Tecnología como proporción de Población Total

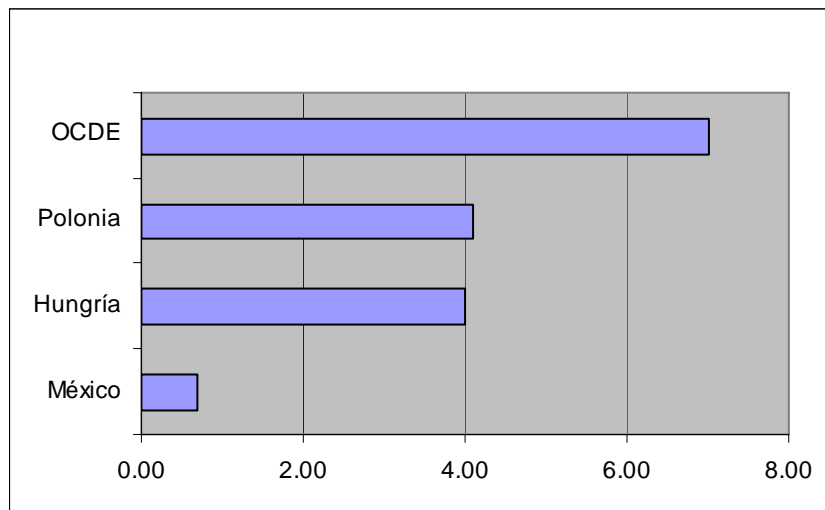


Fuente: Education at a Glance OCDE, 2003

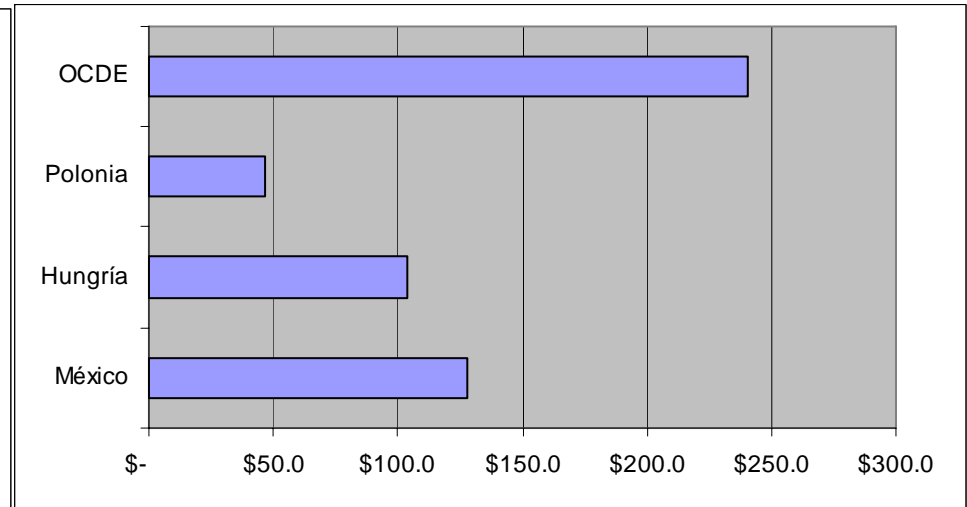
Fuente: Banco Mundial 2002

...and, the problem is not we do not spend enough. We simply have too few scientists

**Researchers/K labor force**



**Spending per researcher (K U.S. PPP)**



Fuente: OCDE, análisis IMCO



## Conclusions

- Current administration is at a critical juncture
- Mexico's future closely tied to success in the many fronts that are open (especially war against crime and energy reform)
- Structural reforms require political capital and economic resources
- This suggests that current energy debate is critical in defining the future outlook for Mexico



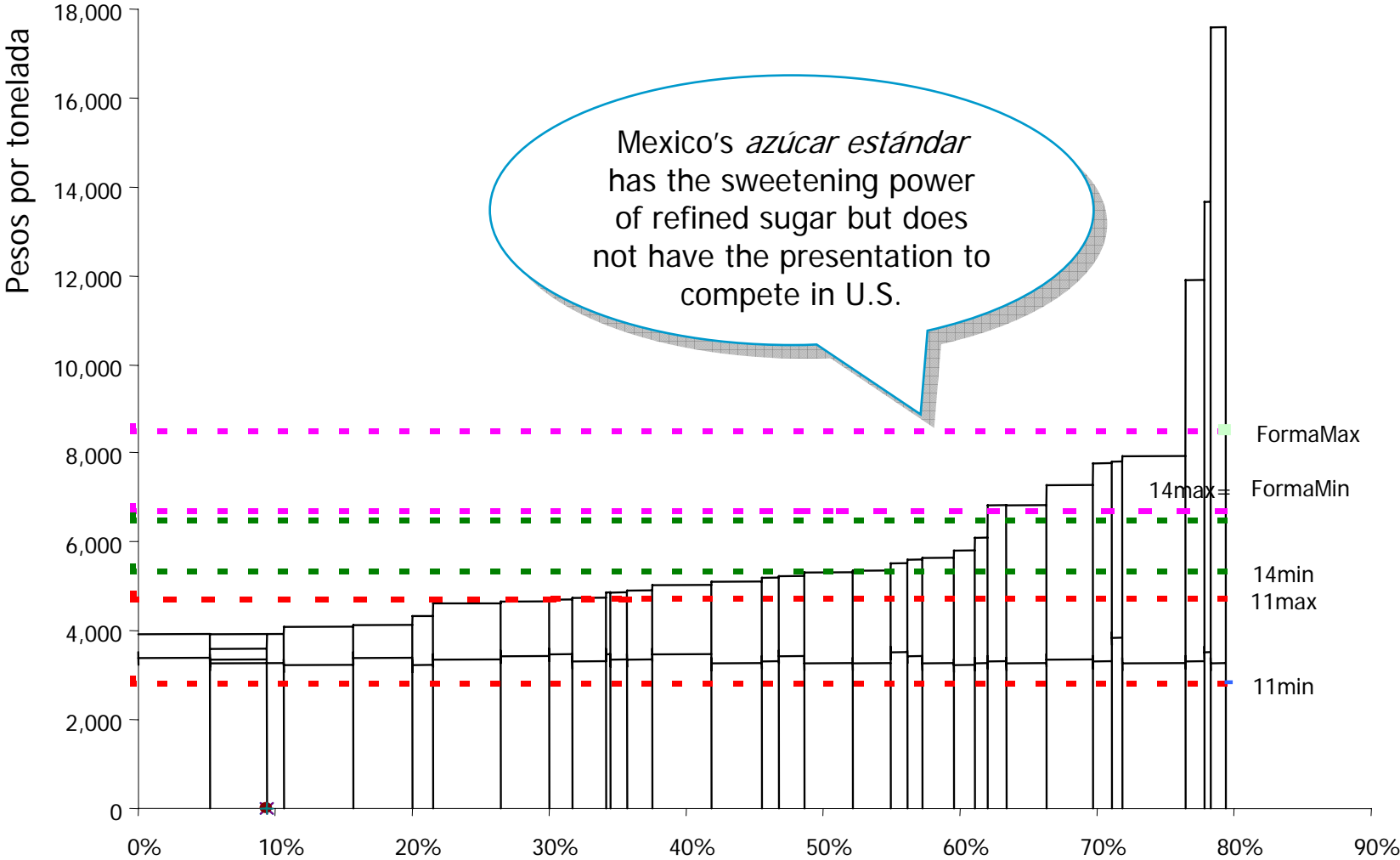
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...but the transition caught Mexico's sugar producers at a bad moment

### Price and cost of *Azúcar Estándar* Adjusting for quality differentials



Fuente: IMCO con datos de FORMA, USDA y COAAZUCAR