

Leading by example

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President Calderón has acted as a mediator for Latin American nations espousing free market principles

Mexican President Felipe Calderón surely had few illusions about the enormity of the challenge facing him when he took over the year-long, rotating Presidency of the G20 in December 2011: the 12 months that stretched ahead offered him the opportunity to regain the international initiative for his country by pushing through an ambitious agenda for change; at the same time, he knew that the United States and Europe, two key players, would each be largely absorbed by domestic issues: presidential elections and the eurozone crisis. Other member states were doubtless going to be distracted with their own problems and challenges, many a result of the global economic downturn.

President Calderón, whose six-year mandate comes to an end in November, following the July elections, is deeply aware of the significance of the presidency to Mexico, and it must be said that he can take much of the credit for the decision to award his country the leadership role. Mexico is the first Latin American nation to host the Leaders' Summit since the first such meeting in Washington in 2008, and only the second emerging economy, after South Korea, to do so. It is a testament to the country's tremendous progress over the last 15 years in moving toward middle-income country status, as well as a recognition of the country's stable democracy.

As the last six months have shown, Mr Calderón and his team have worked ceaselessly, breathing new life into the G20 as part of a broader goal of increasing the G20's inclusiveness; making it more representative and "giving its proposals greater moral authority," as Lourdes Aranda, Mexico's Undersecretary for Foreign Affairs, and G20 Sherpa, puts it.

The two-day Leaders' Summit amid the spectacular scenery of Baja California will be the most visible part of the G20 presidency, but it will only be the half way point in a full year of dialogue, consultation, and coordination with the tourism industry (T20), global business (B20), youth organisations, (Y20) think tanks (Think20), labour unions (L20), young entrepreneurs (G20 YEA), NGOs and other representatives of civil society to achieve Mexico's goals.

President Calderón knows that resolving the global financial and economic crisis will not happen during the two-day summit in Los Cabos, but he will be looking to make the international community understand that it must go beyond unilateral actions

and better coordinate policies – something which will demand the kind of leadership that only the G20 can provide, according to Lourdes Aranda. "The G20 is the best mechanism to coordinate economic policies, promote improvements to the world's increasingly interconnected financial architecture, and contribute to the stable environment that are the pre-requisites for growth and development in all countries."

Ambassador Aranda explains that when Mexico took up the presidency, President Calderón and his team determined to work closely with their G20 partners to find solutions. "I want to stress the importance that Mexico gives to dialogue. We need to hear from outside about how the G20 is working and to hear recommendations on an expert level in different fields – a process that always enriches our work, as is the case with any other type of dialogue with civil society," Ms Aranda told a global gathering of academics and experts at a meeting of the Think20 in Mexico City in February.

In her role as G20 Sherpa, Ambassador Aranda has been the driving force in coordinating Mexico's agenda. Over the past six months, meetings of finance ministers, their deputies, central bank governors, and other sherpas assisting summit leaders have held in-depth discussions on Mexico's five main G20 priorities.

Global economic stability

Since the crisis first broke, Mexico has consistently argued that the prerequisite for the restoration of growth is a recovery in private sector confidence, for which President Calderón believes economic stabilisation is crucial: "Stability means avoiding large swings in economic activity, high inflation rates and excessive volatility in exchange and interest rates. Price and financial instability increase uncertainty, complicate planning, discourage savings and dissuade investors."

With this in mind, the Mexican President says developing countries should "maintain a responsible macro-economy and continue to contribute to world growth", while the developed economies need to focus on "fiscal consolidation and a prompt reduction of the public deficits that have generated the present crisis."

International trade

It may come as a surprise to some to learn that Mexico is now the most open of the world's leading economies. As Alejandro Ramírez, Chair of the Organising

Committee of the B20 business grouping and CEO of global movie house chain Cinépolis, explains: “In 2010, the sum of imports and exports as a percentage of GDP, a principal indicator of openness, was 58.6 per cent. Compare that with China at 47.9 per cent, Russia at 41.9 per cent and the US with 21.6 per cent. Brazil’s total trade in 2010 represented a meagre 18.5 per cent of GDP.”

The value of Mexico’s manufactured exports in 1980 was equivalent to 2 per cent of GDP; today, it is 25 per cent, with much of that change in the auto sector, which represents 28 per cent of manufacturing exports. Oil exports, which were roughly 71 per cent of total exports in 1980, now only account for 13.8 per cent.

According to Mr Ramírez, Mexico’s goal is integrate itself even further with the global economy through free trade agreements, and to correct commercial and financial imbalances at the global level. “As with the other priorities on our agenda, Mexico is leading from the front in this regard: we have some 44 trade agreements with different countries around the world. Since we signed the North American Free Trade Agreement (NAFTA) in 1994, our exports have grown seven-fold to US\$350 billion. We believe that this gives us the moral authority to reject the protectionism still found in many developed and developing economies of the world.”

Under the Mexican Presidency, the B20 has been organised into eight thematic strands, each with its own designated ‘task force’, namely, Green Growth, Information and Communications Technologies (ICT) and Innovation, Food Security, Trade and Investment, Employment, Financing for Growth and Development, Transparency and Anti-Corruption, and Advocacy and Impact. The latter runs across all the other seven task forces and is designed to track past recommendations and ensure follow-up action.

“President Calderón has created an unprecedented space within the G20 for the B20, and he wants feedback from the business community. We’ve been able to liaise with all the relevant ministries; Labour, Trade, Finance, and others, as well as to coordinate with working groups on the key issues, such as anti-corruption, food security, green growth, and so on,” says Mr Ramírez.

Reforming international financial institutions

Mexico has actively supported reforms to the world’s leading lending agencies to give emerging economies a greater voice in finding solutions to the current international economic challenges.

In addition, Mexico has urged G20 members to avoid

introducing regulations that could make access to credit more costly, such as overly strict capital requirements. Mexico has also backed the efforts of the Basel Committee on Banking Supervision and the Financial Stability Board to draft new standards and rules to mitigate the risks in the sector, and it agrees on the need to strengthen both the international coordination between supervisors and the scope of the regulations of the financial instruments, entities, and markets with inherent systemic risks.

Volatile commodity prices and improving food security

Commodity prices may have settled over the last six months, but prices of foodstuffs remain stubbornly high due to insufficient supply growth, raising wider issues of food security. President Calderón has pointed to the 50 per cent rise in world food prices over the past five years, highlighting the relationship between higher food prices and extreme poverty, hunger, and “social turbulence.” He blames the rise on an increase in demand in emerging economies such as India and China and “a strictly financial component caused by speculators who seek higher profits in food markets.”

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AT Kearney recently named the Mexican economy as the 8th most attractive for investment worldwide, placing it above the BRICS and all of the Latin American countries

Climate change and sustainable development

The hallmark of Mexico's G20 presidency is most likely to be 'green growth', based on an ambitious agenda that aims to link technology to strong, sustainable, and balanced economic development. The approach cuts across many concerns: the environment, climate change, the financialisation (or internalisation) of nature, the phasing out of fossil-fuel subsidies, energy efficiency, employment, people-oriented development, decentralisation and equality issues.

Growth with jobs: the real measure of success

All those involved in Mexico's G20 presidency agree that the long-term goal for member states must be to create jobs. Gloria Guevara, Mexico's Tourism Minister, says that her country's presidency has focused on the role that tourism can play in creating job opportunities. "The objective I chose for the T20 this year was employment: all the other measures we will be proposing will have this in mind," she says, adding that Mexico can generate 5.1 million jobs by boosting its tourism sector, which currently represents 9 per cent of GDP.

G20 tourism ministers met for only the fourth time in as many years in May in the southern Mexican city of Mérida, and fashioned an appeal to their heads of state to promote visa facilitation as a means of spurring economic growth and creating jobs. "Mexico has led the way in this," says Ms Guevara, "we now accept any visitor who has a US visa. Regional visas are the way forward."

This year's T20 meeting marks an important breakthrough, she adds: "We gathered this year with the firm knowledge that our work will be presented to

the G20 heads of state. President Calderón has put visa facilitation on the agenda at the meeting in Los Cabos."

A presidency ends with a presidency

The G20 presidency has coincided with President Calderón's final 12 months of his six-year term in office, with the Los Cabos summit coming less than two weeks before Mexicans go to the polls to elect his successor, and provides an opportunity to assess his mandate and Mexico's current situation.

The international media's focus on the violence in areas of northern Mexico related to the turf wars between the country's drugs cartels has distorted the true picture of the rapid pace of change that has transformed Mexico over the last decade, putting it on a sound macroeconomic footing that would be the envy of many developed economies.

Mexico has recovered rapidly from the global financial crisis, posting GDP growth of 5.5 per cent in 2010 and 3.9 per cent in 2011, after plummeting 6.2 per cent in 2009. Economic output was back to its peak pre-recession level after 12 quarters. Moreover, Mexico's industrial production surpassed its pre-recession high in early 2011.

In large part, Mexico has been able to bounce back from the recession so quickly thanks to the reforms it introduced in the wake of the 1995 crisis, and that have kept interest rates and inflation to single figures, as well as the peso-dollar rate stable and a public deficit lower than the big economies of the EU. The consulting firm, AT Kearney recently named the Mexican economy as the 8th most attractive for investment



Photo courtesy of Casas GEO

Aerial view of Temixco, one of the new wave of DUIS (Integrated Sustainable Urban Developments) transforming Mexico's housing market

worldwide, placing it above the BRICS and all of the Latin American countries.

Over the last two decades, Mexico has steadily progressed toward middle-income country status, with per capita GDP in purchasing power parity terms now close to US\$14,000, an increase of 40 per cent on 1988. As *The Economist* recently pointed out, national statistics in Mexico tend to be underestimated by up to 10 per cent, meaning that per capita GDP in reality is now around US\$15,000, the highest in Latin America, and twice that of Brazil. At the same time, a fast-growing middle class has emerged that now makes up 60 per cent of the population, breaking down the rich-poor divide in a profound demographic transformation.

These families own their homes, buy cars, buy life insurance, take holidays and are fuelling the rapid growth of private schools and universities. They care about what the middle classes everywhere care about: family, education, economic opportunity, and security. They are also playing an increasingly active role in the democratic process.

Whoever wins the July election, says Luis Rubio, head of the CIDAC think tank, and the co-author of a new report called *Mexico: A Middle Class Society, Poor No More, Developed Not Yet*, says that the real challenge for the winner of the July election will be finding a way to “engage the middle class and harness the benefits of a diversified and growing economy while continuing to fight organised crime and strengthening the rule of law.”

Mr Rubio welcomes the impact of the middle classes on politics, while acknowledging the country must now take on new responsibilities: “As Mexico is now a

middle-class country, we don’t have any excuse anymore. We have to start acting like a middle-class country.”

Crunch time for the G20?

The G20 is at a crossroads and the world is watching. Andrés Rozental, a former Mexican ambassador to the UK and Sweden, as well as deputy foreign minister, believes that the G20 is the only game in town, although he is concerned about a lack of continuity, legitimacy, and credibility. It is equally unclear whether the Troika system, in which the immediate past and future G20 presidencies work with the incumbent, should be maintained, says Mr Rozental.

“Mexico’s Presidency of the G20 is probably crunch time. We can’t go much further with the G20 as it is. There is no secretariat, no centre, so there is a danger of the G20 becoming dysfunctional. The G20 needs to see itself as a global steering committee, and remain as informal as possible, allowing leaders to meet and to discuss the direction in which they want the world to go, rather than what it has been doing, which is basically crisis management. Above all, we need continuity,” he says. To increase the effectiveness of the process, he believes that the G20 should be made more informal, possibly with a one- or two-day retreat where leaders can “build chemistry”.

Mexico has worked hard to lay the foundations for that continuity through its outreach approach, involving a wide range of organisations and participants around the world and that will, in theory, continue to work and share ideas and proposals when Russia takes over the presidency in December. E

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