

# The future of Mexico

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Mexico has spent the last quarter century transforming itself. It has laid the foundations for a modern nation and has adopted a policy framework for long-term economic growth. It has, in other words, made a great many “investments” to consolidate a solid structure for development. All that seems to be missing is the capacity to bring all these investments together, something that only competent and enlightened leadership can accomplish. The way it defines, and then proceeds to face up to the country’s problems will determine the outcome.

Not the first time, Mexico finds itself faced with a great opportunity to conquer development. Over the past two centuries since independence, the country has been on the brink of transforming itself more than once. In fact, “the history of independent Mexico”, wrote Edmundo O’Gorman, “is the perennial struggle between tradition and modernity.” From a different perspective, Octavio Paz repeatedly stressed, the theme underlying everything in Mexican history is whether to look forwards and outwards or backwards and inwards. These dilemmas are very much at the forefront as the country faces a change in leadership in the coming months.

Mexico has everything going for it to be successful, except for a clear sense of direction and vision. Observers from afar may find this statement awkward because the country has in fact made great strides in building a modern society and economy. If one looks at what has actually been done, more than a few attempts have been made to lay the foundations of sustained growth. But at any rate, these never materialised to their full potential. This paradox has clear explanations, but nonetheless fits well with the observations made by the likes of O’Gorman and Paz.

The country has made significant reforms and “investments” over the past few decades, but few of these have delivered on their promises. The first big such investment was NAFTA, a ground-breaking trade agreement whose core objective had less to do with trade or investment than with doing away with the curse of Sisyphus. The objective was to set a course for the country’s economy with a solid guarantee that the policy framework and general structure of the economy would not be altered as the political winds shifted, making it so costly to annul it, that nobody would dare do so. The United States and Canada

provided the guarantee. NAFTA has thus become the main engine of economic growth.

As the export industry grew to become a formidable power in and of itself, it evidenced where Mexico’s true challenges lie: the country has first-world entrepreneurs but a fifth-world system of government. NAFTA forced business to radically transform itself, but the government still has yet to do so. Will the next administration face up to this conundrum?

Similar investments have taken place in the electoral system, a world-class structure; in education, where teachers now compete for job openings through exams and are paid on the basis of children’s performance in standardised tests; in infrastructure, where the network of roads, highways, ports and the like has doubled in the past six years; in the adoption of rules for transparency and access to information. Above all, the country has maintained a fiscal equilibrium, which lies at the heart of the nation’s greatest achievement of late: to have made it possible for a middle class to grow and become the largest component of society. Governments have come and gone, but the economy moves on and society improves its lot. In these circumstances, a competent leadership could do wonders. Think Lula.

Some months ago, Gordon Hanson published a study\* on why Mexico is not a rich country. His point of departure was that the country has carried out many reforms and that, in general, these were much more extensive than those of the majority of countries at a similar level of development but, unlike these, it has not achieved a rise in its growth rate. His analysis was also interesting because it excluded many of the clichés and myths that persist in the milieu: Corruption? Yes, but many countries that do grow are equally corrupt; Hispanic heritage? Yes, but, with the exception of Venezuela, Mexico is the country with the least growth in the region; Government-owned firms? Yes, but there are many in Asia and Latin America and these enterprises do not have to be an impediment; Cultural rejection? Perhaps, but not at all distinct from that of the remainder of the continent that grows with celerity.

Hanson’s conclusion was interesting because it did not pretend to attain the philosophers’ stone. From his point of view, there are five factors that interact negatively to impede the growth of productivity, but it is very difficult to know the relative importance of each, which is why there is a risk of overestimating a

specific cause only to later find that the problem lies elsewhere. The factors are the following: extremely poor allocation of credit; high incentives for the informal sector; a poor educational system; control of some key markets; and vulnerability to external shocks. However, the core of his conclusion was that there is no governmental capacity, that is, that the government is barely effective, that it generates too many distortions, and that it does not contribute to resolving the problems of the economy, despite having attempted to do so with such diligence. In other words, a fifth-world government.

None of Hanson's conclusions are earth-shattering or difficult to resolve. Indeed, Mexico's true challenge has long been obvious: lack of leadership and effective capacity to get things done, coupled with an absence of continuity of government programmes. In stark contrast with highly institutionalised societies, where change can be difficult to accomplish, the one advantage of nations that are less consolidated is that they can experience rapid change and transformation. The foundation has been laid for an effective leader to take advantage of all the changes, reforms and investments that have so far shown more promise than actual delivery. And it could happen quickly.

At the heart of the country's problems lies a lack of a system of effective checks and balances. It was this absence that NAFTA was meant to address in the economic realm. Early in the 20th century the country succeeded in building a political arrangement among the various factions that won the revolutionary epic; that arrangement allowed for decades of stability and economic growth. The arrangement collapsed in the 1980s, largely because it proved inflexible vis-à-vis an ever more globalised economy and a more demanding society.

The country today needs something similar, albeit in a far more complex and democratic context. Its problems and dilemmas today cannot be solved overnight, but an effective leadership that is willing and capable of brokering a major political agreement among the various political forces – and with society – could unleash enormous energies. Such a political arrangement would have to convey legitimacy on both the winner in elections as well as to the opposition, would have to create mechanisms for power sharing among the branches of government, and would have to consolidate effective checks and balances.

These issues and topics are part of the discussion and debate in the ongoing electoral contest. In fact, for the first time in decades, there are no fundamental disputes as to where the country should be going or even on how to get there. Of course, each political party and candidate has contrasting strengths and weaknesses, as well as priorities and values, but the contest has shown

that the population and the politicians have largely come to grips with the need to look towards the future rather than to recreate the past.

Mexico is clearly on the cusp of a different future. The country's true challenge lies in the need to develop effective checks and balances, which is much more of a political issue than an economic one. Once the citizenry, as well as the business community, both national as well as foreign, perceive that the risks associated with the ups and downs of a specific administration are not life-threatening, the people's full energy will get the country out of its morass. The shifts the nation has experienced over the past half century have been so big that only effective counterweights will do the trick.

As Hanson has shown, the economic structure is ready to take a huge leap in terms of economic growth. Beyond the political uncertainty that stems from the lack of a functioning political arrangement, the agenda for development is plain and has been known for the last two decades. This does not mean that those reforms would be easy to carry out, but competent leadership could do the trick by bringing the political forces and the population together.

The agenda itself can be as simple or as complex as one would like to make it, but the issues that need addressing are quite clear: first is the fiscal issue. The government is too dependent on Pemex (Petróleos Mexicanos, the national oil company) for its financing. At the same time, the structure of taxation not only provides for ample loopholes to evade taxes, but it also creates an incentive for businesses to opt for the informal economy. Second, the country faces unfathomable monopolies in energy, media and communications. All three of these areas need to be addressed and resolved. There are many ways of accomplishing this, but at the core the issue is competition: a true market that lowers prices, guarantees supply and improves quality. Third is education, probably the single greatest challenge to secure a successful evolution of the economy and the people towards ever higher levels of productivity and value added.

Were Mexico to take on this agenda, it could help transform the North American region into a new export power house, for the benefit of the three NAFTA nations and those in the vicinity. A strong regional economy would help the region to move to a new tier of development.

The real question for Mexico today is whether the country's future leadership will attempt to rebuild the old structures of power or will lead towards a different future. The opportunity is quite clear; the outcome is yet to be seen. <sup>E</sup>

*\*Hanson, Gordon, Why Isn't Mexico Rich? NBER <http://www.nber.org/papers/w16470>*

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