

Making a MINT

INTERVIEW WITH JIM O'NEILL

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JIM O'NEILL is a British economist best known for coining BRIC, the acronym that stands for Brazil, Russia, India, and China – the four rapidly developing countries that have come to symbolise the shift in global economic power away from the developed G7 economies. As of January 2014, he is an Honorary Professor of Economics at the University of Manchester.

It's been over a year now since you reported from Mexico as part of your 'MINT' series for the BBC. Are you encouraged or disappointed by the country's economic – and political – progress in the interim?

In some ways, it is still too early to tell. The kind of reforms that Mexico has embarked on will probably take many years to see the benefits from, and that is assuming that they are all implemented successfully. I remain just as excited about the scale of the ambition and the breadth of areas that are being changed. But we probably can only judge in another couple of years, and maybe not until late in the decade as to whether Mexico's structural growth rate has risen.

Since the programme was made, the oil price – on which the Mexican government depends for around a third of its budget revenues – has halved, clouds have gathered over much of the global economy, and the optimism and consensus generated by President Enrique Peña Nieto's early legislative successes has largely dissipated. Has Mexico missed its 'moment', do you think?

Well in some ways, I think it is a necessary challenge to go through. As I tried to argue in the past decade to many commodity producers, we could only really find out how

successful they truly were once oil prices declined. As otherwise, the economic success is simply due to an external development which is bound to not last, as we have now found out. Some oil producers are using the moment of lower oil prices to reduce their economies' permanent dependency on it, such as reducing domestic subsidies. Of course, for Mexico that had such exciting plans to attract a lot of FDI in energy, it is a temporary issue, but for long-term energy companies, it should be more attractive than it was, because it should be cheaper! By the way, I don't believe the issue about clouds over the global economy, it is doing fine, and for many oil importers, obviously lower oil prices are really good news, including importantly for Mexico, its still gas-guzzling northern neighbour.

Last year's tax rises hit the Mexican middle class – which you identified as the key to rebalancing the country's economy – harder than perhaps even the government realised. Is there a danger that, in seeking to balance the books, the administration has unwittingly cooked its own 'golden goose'?

There is always a danger that a tax change has unforeseen consequences. In Mexico's case, I believe the real key, as I did articulate in the BBC MINT series, is that they need to bring more people into the



Driving increased productivity: Mexico's world-class automotive industry

tax base. It is quite striking how so many and so much of the economy has been in the so-called 'informal' economy, and unless and until this changes, Mexico won't achieve its true potential and dreams.

You also highlighted Mexico's world-class automotive industry as major engine, if you'll pardon the pun, of economic growth and one of the main drivers of increased productivity. What many commentators are asking is where else is the anticipated growth going to come from? What bright spots do you see?

I think the automotive sector remains a huge positive for Mexico and I observe signs of increased competitive gains even compared to what I highlighted over a year ago. With respect to its northern neighbour, I really believe that the old GE motto "who needs Mexico when you have got China" is reversing, at least when it comes to manufacturing. It is now "who needs China when you have got Mexico next door?" I think, again as the programme highlighted, the aerospace industry is another where Mexico is becoming quite successful and has big potential.

What do you regard as the greatest challenge – internal or external – to Mexico's ambition to take its 'rightful place' at the world's economic top table?

Always internal!!! External forces are usually cyclical and countries cannot control them (unless you are the US or China, or countries that are truly big enough to influence the world growth rate). It is also quite dangerous, lazy and a bad sign when policy makers blame external events for persistent disappointments.

As the President outlined so clearly in his excellent book (at least the English version he gave me!), Mexico has some very transparent weaknesses that it needs to change, and who am I to argue with this? Of them, I think education energy, corruption and the tax gathering capabilities of the government are perhaps the most important, especially over the long term.

Should Mexico be seeking to build economic and political bridges with the other MINTs, as the BRICs have sought to do?

What was so interesting about the MINT programme was that Mexican policy makers asked me about this very question when I met them and seemed both remarkably open and

forthright about the possible benefits, and there have been subsequent discussions at least at the finance minister level since, one of which I had the privilege to be part of. I think the MINT leaders are being quite sensible in trying to establish areas where they might have some general discussions about what they could share and benefit from working together more closely, before wanting to make a big show out of it. To some extent, the BRIC leaders were too eager to announce that they were going to co-operate with each other before realising what was feasible. And in this regard, I think the MINT leaders are being quite wise. They do share similarities, especially in terms of having lots of diverse trade partners and young growing populations but they also have a number of differences. It is best to explore areas before becoming too ambitious and locking oneself into rigid arrangements that cannot be delivered on.

What piece of economic advice would you offer President Peña and his team as they approach the midway point of their term?

Make sure, he succeeds on everything he has stated as his goals in his excellent book! Easy (at least for me to say). If Mexico sticks to implementing these reforms, its growth rate from 2015-2030 could rise to 5 per cent.

And to would-be investors in Mexico?

Follow what is done, as opposed to what is being said. Which of course, is the key motto for everywhere not just Mexico. But as I think Mexican policy makers know, investors are quite positively inclined towards the country, notwithstanding last year's challenges and external forces. E

The MINT leaders are being quite sensible in trying to establish areas where they might co-operate without making a big show of it



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Market forces: bringing informal workers into the formal economy is key if Mexico is to achieve its potential