

SPECIAL  REPORT

# MEXICO

an economy on the move



**FIRST**

PUBLISHED TO MARK THE VISIT OF  
PRESIDENT FELIPE CALDERÓN HINOJOSA

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Special Report to mark the visit of  
**HE Felipe Calderón Hinojosa**  
President of The United Mexican States

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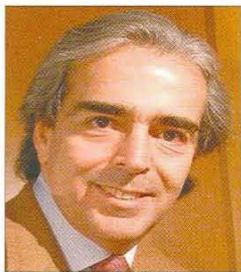
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# Mexico: the next 72 months

By LORENZO LAZO MARGÁIN

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**T**oday, Reforma Avenue is full of traffic and vitality as usual. The 'virtual' demonstrators, who settled for weeks in mostly empty tents in this and other main streets of Mexico's capital in protest at the election results, are gone.

After surviving the threats and tensions of the election's aftermath, the Mexican political system has climbed one more step on the path to democratic maturity, but still many challenges remain to be overcome.

Felipe Calderón, backed not only by the conservative party he once led, the PAN, but also by former President Vicente Fox, was elected in a photo-finish electoral race, winning by the narrowest margin in Mexican political history. The left wing opposition candidate Andrés Manuel López Obrador – a former Mayor of Mexico City – refused to recognise his defeat. Moreover he proclaimed himself "Legitimate President" in a campaign-like rally in the Zocalo, the main square of Mexico's capital, and threatened to reject all the country's institutions. López Obrador built his constituency mostly among the poor, as well as the intellectuals and some middle class urban social groups who felt excluded from the development process.

President Calderón was sworn into office on December 1st 2006, in an historic and controversial inauguration ceremony that perhaps gave his left wing opponents more reason to be ashamed than proud.

According to Jeffrey Davidow and Luis Rubio: "The July 2006 election was not only a contest to select a President and a new Congress. It was also a referendum on the future of the country where modern liberalisation collided with a model of government control, subsidies and populism". The map of the Mexican presidential election shows a razor-thin lead of less than 1 per cent between the right wing PAN and the strong left wing challenger, the PRD. The PRI (Institutional Revolutionary Party) came in third place for first time in its history. The geographic distribution of votes tells us that poorer southern states voted in favour of the PRD, who offered a strong welfare state and whose candidate offered several populist policies to overcome poverty, whereas in the wealthier states of the centre and north of the country, the PAN achieved clear victory.

Some analysts maintain that there is an ideological and geographical fracture in Mexican society that divides the rich and the poor, the north from the south. Still, there

are several elements of the national agenda that will require deep transformations and rapid results.

Two elements in particular have required the primary attention of the incoming government; firstly, the unseen actions of the Mexican Army and Navy against organised crime, whereby a series of military operations in several states are in force to curtail the operations of cartels and organised crime syndicates that were accustomed to operating as a state within a state. However, the successfulness of Calderón's strong push towards restoring security should be treated with caution until further results are evident.

On the economic side, since the financial crisis of 1994 Mexico has achieved its target of stable growth with low inflation. At present there are a series of topics in the economic and financial sphere that will require special attention. Firstly, a fiscal reform package has been announced, to be negotiated with Congress later this year. The reasons for the urgent attention to this matter are several; for one, Mexico has one of the lowest fiscal contribution to GDP ratios in the world. Work needs to be done to increase fiscal receipts, not only from existing taxpayers but also, and perhaps more importantly, by bringing into the tax net the growing informal sector, as well as closing legal loopholes that allow private corporations to pay lower taxes.

Even more attention is required in the energy sector. PEMEX, the main State oil institution, is still far from being a business corporation. The large amount of fiscal requirements from the public sector imposes a very real threat to profitability and efficiency standards. Fiscal reform will enable the treasury to find additional sources of income in order to liberate PEMEX from its present burden.

Another area of concern is the need to increase oil and gas exploration both on land and in the deep waters of the Gulf of Mexico, in order to restore reserves that have been diminishing in recent years. Today, only two countries in the world still prohibit private risk investment in oil and gas exploration: Mexico and North Korea. This restriction limits the potential for energy growth at a time when Mexico (the United States' second-largest source of foreign oil) sees its oil production declining and gas imports from the United States increasing.

These so called 'structural reforms' are still a pending assignment on the national agenda. Opposition

We will have to re-engineer the country's economic model if we are to increase Mexico's competitive edge

political parties are extremely sensitive to this issue, and it does not seem feasible to address it in the near future. Furthermore, the lack of a majority of President Calderón's party (the PAN) in the Congress is one of the many obstacles that need to be overcome before consensus can be reached on this matter.

After less than two months in office, President Calderón has outlined the main items on his agenda for the term 2006-2012.

On the economic side, the macro-economy has achieved long-term stability without inflationary or foreign exchange crises since 1994.

The performance of the Mexican economy has yielded positive results, such as lower interest rates and even lower rates of inflation. The advantages of its free trade agreements have had a positive impact on the country's foreign trade, making the Mexican economy the 12th largest in the world.

President Calderón is committed to maintaining fiscal discipline and increasing the level of economic efficiency of public spending.

One of the best ways of achieving this will be to harness the size and strength of the country's internal market of 100 million people.

Due to the fact that Mexico's railroads, airports, highways and telecommunications are in the hands of private sector concessions, the role of the government is largely one of promotion and regulation. The main target of the government's infrastructure programme will therefore be to build labour-intensive local roads to foster regional economies, thereby increasing incentives to remain in local areas and reducing migration flows.

At present, the money earned by Mexicans working abroad – mostly in the US – represents the prime source of foreign income. More than 21 billion dollars in 2006, this figure is higher than the foreign income revenues generated by oil revenues and tourism.

President Calderón's term is for six years with no possibility of re-election. This non re-election constraint forces the nation's President to compromise during his 72 months term in office, in order to address issues and make the best effort to resolve the problems of his time.

President Calderón is the first Mexican President in the last 37 years with previous experience in the Congress and as President of his political party.

Calderón has clearly shown a willingness to differentiate his administration from the personal and political tactics of his predecessor. He has assembled a carefully selected group of experienced and well known public officials in the cabinet – most notably in the financial, energy, communications and labour Ministries – that have considerably more experience in government, and so far seem eager to run a tight ship.

The international scenario seems favourable,

except in the case of the reported slow-down in the US economy, which will certainly affect the overall performance of Mexico's GDP, due to the strong correlation between both indicators. In addition, the forthcoming US presidential race could well bring some negative attention to Mexico on the electoral agenda, with topics such as national security in the border area and strengthening measures against illegal migration. On the other hand, in the event that the Democrats return to the White House, more pressure will be exerted against market concentration, monopolies and government control in key sectors, such as communications and energy. We will have to re-engineer the country's economic model if we are to increase Mexico's competitive edge to catch up with new technologies of Bangalore in India, the industrial production of Shanghai in China or the tourism development of Dubai in the United Arab Emirates.

President Calderón has to find new solutions to the country's ancient problems, such as reducing poverty, enacting fiscal reform, energy sector improvement, and political reforms. Each of them requires the ability to build consensus with opposition political parties, in order to develop a system of government that will pass his proposed legislation.

The main topics of the national agenda are related to internal issues. Many changes are urgent; in almost every sector a major decision or transformation is required: to make the government less costly and more efficient; to support decentralisation and the consolidation of a true federal system; to allow the private sector to compete locally and internationally with less regulatory constraints; and to further advances in social policy. Health, education and infrastructure are crucial to foster economic growth on a regional basis.

It seems that the social policy targets that have been outlined so far have as their the main idea the alleviation of poverty through child healthcare and other measures, as well as increasing the level of political support for his party in order to win a larger share of seats in the Congressional mid-term elections. If such a scenario is achieved, it will be an indicator that major structural reforms could be passed in Congress. In any case it is unlikely that the international markets – i.e. Wall Street – will have enough patience to wait another three years. And as the US is discovering to its cost, once you start a full frontal war against the enemies of society – the drug lords, in the case of Mexico – it is not merely important to win, it is the only option.

Almost two months have elapsed, and time is neither free nor cheap. As former Senator and Governor Miguel Alemán said: "We need to build a long-term vision of our country, which could build a path of continuous progress from 2010 to 2050". In this endeavour President Calderón has no choice but aim high and lead the way. **F**