

MEXICO'S MARKET REFORMS: PROGRESS AND CHALLENGES

A conversation with José Antonio Meade Kuribreña, Mexican Secretary of Foreign Affairs



José Antonio Meade Kuribreña has been Secretary of Foreign Affairs in the cabinet of Enrique Peña Nieto since December 2012. He previously served as Secretary of Energy and Secretary of Finance under President Felipe Calderon. He received degrees in Economics from the Instituto Tecnológico Autónomo de México (ITAM), in Law from the Universidad Nacional Autónoma de México, and a PhD in Economics from Yale University.

At an event in Johannesburg on the 16th of October 2014, co-hosted by the Mexican ambassador and by the Centre for Development and Enterprise (CDE), Minister Meade spoke about the performance of the Mexican economy, the expansion and diversification of Mexican trade, relations with South Africa, and the reforms that are part of the 'pact for Mexico', launched by President Peña Nieto in 2012. He provided detailed, insightful answers to questions from CDE's Executive Director, Ann Bernstein and from senior business leaders in the audience. This publication summarises the introductory remarks made by the Foreign Secretary and then reports on his answers to questions.

Ann Bernstein, CDE executive director

More than two years ago CDE set out, in collaboration with partner think-tanks in India and Brazil, to shed new light on the relationship between democracy and growth in the developing world. We concentrated on India, Brazil, and South Africa, three important democracies and regional powers on three different continents. A particular focus of interest was the relationship between economic growth, inclusion of the poor, and democratic rights. The main product from this collaborative project is a major public report called *The Democratic Alternative from the South: India, Brazil and South Africa (2014)*, which is available from www.cde.org.za. In the report we argue that, contrary to what many people believe, on the African continent, Asia and elsewhere, there is no need to give up human rights and freedoms in order to have economic growth. That is a very important statement

to make in the current context of authoritarian China's rising appeal and the ongoing tribulations of Western democracies.

At the same time India, Brazil and South Africa are all now in some degree of economic trouble. They have to build support for and implement fundamental reforms rather quickly if they are to consolidate their potential for combining higher growth, inclusion of the poor, and democracy.

In this context we are very interested to learn more about Mexico, a complex country which has embarked on what *The Economist* has called, one of the 'most ambitious reform programmes in the world today'.

Secretary of Foreign Affairs Meade Kuribreña

Mexico is an important, stable and rising multi-party democracy. Since 1934 the country has held elections every six years and has more recently experienced numerous peaceful regime changes. The election of Vicente Fox of the National Action Party (PAN) in 2000 brought a new political party to the Presidency, which had been held by the Institutional Revolutionary Party (PRI) for seven decades. The emergence of new political parties and leaders is a sign of democratic consolidation in Mexico. The PRI returned to power when President Peña Nieto was elected in 2012. No single party has had a majority in Congress since 1997. In this context, pushing through major reforms has required coalition politics, which has been a crucial part of the current reform programme.

Mexico is the fourth-largest economy in the Americas after the US, Canada, and Brazil. At our current rate of growth we should overtake Canada within the current generation's lifetime. We have a large population of around 120-million people and the country spans a vast area. If you were to put Mexico into Europe we would extend all the way from Copenhagen to Sicily.

In general, the Mexican economy has done very well. We have a stable macroeconomic environment, low inflation rates, a low level of debt to GDP (about 38%, which is amongst the lowest within the Organisation for Economic Co-operation and Development [OECD]). We have, and we share this with South Africa, a very good financial system. We are very well capitalised. We have, and this is in stark contrast to South Africa, one of the OECD's lowest unemployment rates (around 5%). Regardless of the party in power, for the last twenty years or so, Mexico has benefited from prudent management of our public finances.

Mexico has dramatically changed its role in the world. Trade as a percentage of GDP is more than 60%, compared to Brazil at 21%, India at 42%, South Africa at 55% and China at 47%.¹ We are now one of the top three exporting powers within the G20, measured as a percentage of GDP. When people think about Mexico's exports they tend to think about oil, and it is true that Mexico is rich in energy and an important producer of oil. But the oil and energy sectors today make up less than 7% of our GDP.

Commodities constitute just less than 20% of our exports. The remaining 80% are manufactured goods. Mexico's high-tech manufacturing measured as a percentage of GDP is in the top five of G20 countries. We are the eighth-largest automobile producer; fourth-largest exporter of automobiles; the biggest exporter of refrigerators; and the fifth-largest exporter of computers. Mexico, as you can see, has become a leading producer of advanced manufacturing goods for export.

Unspectacular but consistent growth in a reformed and diversifying economy has allowed rapid expansion of Mexico's middle class, and close to 50% of Mexicans (around 60 million people) can now be considered middle class. About 80% of Mexicans own a cell phone, 50% own at least one car, and about a third own a computer. Social mobility has gone hand in hand with urbanisation; the World Bank estimates that three quarters of Mexicans reside in cities. Another important and interesting trend is the shrinking proportion of the Mexican middle class that works in the public sector, compared to previous decades.

Despite these achievements, Mexico's growth rate has been lower than many other countries in Latin America (see box).

BOX: Rate of GDP growth – selected Latin American countries²

	2000	2005	2010	2012	2013
Argentina	-0.8%	9.2%	9.1%	0.9%	3.0%
Brazil	4.3%	3.2%	7.5%	1.0%	2.5%
Chile	4.5%	5.6%	5.8%	5.4%	4.1%
Colombia	4.4%	4.7%	4.0%	4.0%	4.3%
Mexico	5.3%	3.0%	5.1%	4.0%	1.1%
Peru	3.0%	6.3%	8.5%	6.0%	5.8%
Venezuela	3.7%	10.3%	-1.5%	5.6%	1.3%

Source: World Bank, 2014

This is partly the result of opening the economy to trade with the world and especially the North American region, which in turn means we are strongly influenced by the growth performance of other countries. The current difficult global growth environment has, predictably, reduced Mexico's growth performance. However, during the last decade, Mexico out-performed the US and most of its trading partners in terms of growth. According to data from the first trimester of this year, Mexico is the fastest growing economy in the OECD, which is of course mostly the result of the OECD's exceptionally bad performance. Nevertheless, it is important to remember that Mexico's economy is actually doing quite well in relative terms.

In the current context raising Mexico's growth performance has become increasingly difficult. There is no real space to use fiscal spending to stimulate growth and a number of European countries (Portugal, Italy, Ireland, Greece, Spain) have shown what happens if countries abuse fiscal tools to generate growth. Monetary policy is loose in Mexico, as it is in the rest of the world, and monetary policy also cannot really be loosened further to stimulate growth. As a result it became clear to the Mexican government that, if we wanted to find additional sources of growth, the only way was to undertake a very aggressive programme of structural reforms.

Since President Enrique Peña Nieto won the election and took office in 2012, his new government has pushed an important set of reforms through Congress. These include making the labour market more flexible and more inclusive, especially for women and young people; education reform to make the system more transparent and merit-based by introducing evaluations and performance tests; and reforming telecommunications by creating a more powerful regulator, thereby opening up the sector to break current monopolies. As soon as this reform was approved by the upper house of the Mexican Congress, the largest telephone company in Mexico announced that it was going to

divest part of its assets so as to allow for more competition. So just getting this issue discussed and approved by one of the houses of Congress led to an immediate positive effect in opening up the telecommunications sector to more competition.

We also implemented financial reforms by overhauling all of the regulations regarding the financial sector in an effort to translate the strength of our banks into more credit and better savings products. One of the least popular areas of reform was the fiscal reforms, which led to higher taxes. But these reforms were necessary if the government wants to provide the public goods Mexicans need, including education, infrastructure, and security.

Energy reform is another important component of our programme. The regulation of energy in Mexico was unchanged for seventy years, which made Mexico the most closed regime in the world, with the probable exception of North Korea. Our energy sector was more tightly regulated and closed than Cuba's, for example. The reform we implemented was far-reaching and now allows Mexico to acquire investments and technology through licensing agreements with foreign companies. The first licensing fields will be opened to the private sector as early as the first trimester of next year. We have set out to raise private sector awareness and interest before the bidding process actually starts.

We also worked to strengthen our democracy. We agree with Ann Bernstein's assessment that a strong democracy and respect for human rights can work as an advantage for the promotion of growth and inclusion. We revised our legal framework to allow for the possibility of re-election. Previously our legislators could not seek re-election after a three-year term in congress, but this prohibition has been abolished. With legislators only serving non-consecutive three-year terms it was very hard for them to become experts in their field, and they had no incentive to keep promises to their constituents. We have instituted greater transparency and accountability at all levels of government.

In Mexico education and teaching jobs have come to be seen as the endowment of teachers' unions. As a result there was little incentive for teachers to invest in their own capacity and enhance their teaching capabilities. Now, as a result of our reforms, we will only allow the best and most committed to stand in front of our children. Education reform will be a source of growth for our country. Already more than 100 000 engineers graduate every year, but we need more high-quality graduates. We invested a lot in education, but we were not getting the results we expected. Education reform is required to fix that situation.

Lastly, we have set out to construct universal social security. We are one of the few countries in the OECD whose pension entitlements have been modified; we are also slowly introducing comprehensive unemployment insurance.

Very broadly, these are the reforms that the new Mexican government has embarked on. (*See appendix at the end of this document which details all the reforms in the Pact for Mexico*).

My particular area of responsibility is foreign relations, and in this area we also want to continue to expand and improve. As a result of the North American Free Trade Agreement (NAFTA) we have strong ties with North America. Our trade with the US adds up to more than US\$500-billion annually. There are more than one million legal crossings every day between Mexico and the US and every day more than 14 000 trucks cross our border, carrying, in many cases, intermediate goods to support what is today a North American value chain. To strengthen integration across this value chain we

need to sit down with the US authorities and talk about credit, logistics, the border, migration, and security.

Apart from our role in North America, Mexico is also a vital part of Central America. We trade more with Central America than we trade with Spain, so we need to keep working on strengthening our relations and improving our integration with Central America as well as the other Latin American countries.

Discussion

Q: *What was the politics of reform in Mexico? Often it is an economic crisis that pushes politicians into initiating reform, was that the case in Mexico? And how did the President push the reforms through in the face of opposition parties?*

There was no economic crisis in the usual sense that provided the context for the pact for reform. Instead there has been a long and growing sense of frustration that despite the opening up of the Mexican economy and the dynamic changes that resulted, economic growth never really reached expectations and never got much above 2%. At that rate Mexico was able to double its real income over the course of 35 years, but the resulting changes were too incremental to make people happy.

When the President won the elections he was determined to push through a reform programme that he believed was the only way to shift Mexico's growth performance upwards. Even before he took office he sat down with the opposition and discussed his ideas for reform. He realised that, while there were many areas of disagreement, there was actually a broad consensus across the political spectrum on what the items of the discussion should be and what the broad direction for the country should be. In that context, the President initiated an intensive process of negotiation with his political opponents and was able to achieve agreement on the reforms I outlined earlier.

He also put together a broad package of reforms, which contains elements supported by the different political parties and interest groups, as well as elements that various parties don't like. For example, while some of the reforms attack the lack of transparency within labour unions and seek to make labour markets somewhat more flexible, others intend to strengthen workers' access to unemployment insurance and state pensions. In the area of tax reform, some political actors made their support for expanding value added taxes to non-essential food and medicines conditional on the President's support for assistance programmes for lower-income families.

By packaging the reforms and compromising in this way the President has succeeded in building a broad coalition that supports the reform process as a whole

Q: *What are the main sources of growth in the Mexican economy?*

International trade forms a crucial component of the Mexican economy and drives a lot of our growth. Exports plus imports as a proportion of GDP constitute about 60%; exports on their own constitute 30% of GDP. Mexico grows largely as a result of trade, which means that the economy benefits from a good global economic environment and suffers from a bad environment – which is currently the case. There are, however, other sources of growth and Mexico's economy can be seen as relatively balanced. Other sources of growth are investment, consumption and government expenditure.

It is likely that if we had not opened up to trade we would probably have more inefficiencies. We may have had slightly higher levels of consumption, investments, and government expenditure to fill some of the space that trade now occupies, but these would have been accompanied by higher costs and lower standards of living. Free trade has been good for Mexico but it is not our only source of growth.

Q: *A lot of business people have been demanding a more flexible labour market and labour market reform in South Africa, but there is strong opposition to this from the unions. What type of resistance to labour market reform did the Mexican government face from trade unions?*

The labour reform that the President was able to implement after negotiating with opposition parties had three central elements. The first was to increase the unions' transparency. Many of the unions received membership quotas, which meant that membership was compulsory. As a result unions were not really accountable to their members. Members paid their dues but unions were not obligated to use the dues in the interests of members. One reform, which was hotly debated and not very popular with the unions, was for them to become more accountable by making their financial dealings more transparent.

The second kind of labour reform was to introduce more flexibility in the hiring and firing of labour. This reform was once again the result of negotiations and compromises. Nobody got everything that they wanted. Some wanted extensive flexibility while others were reluctant to extend flexibility at all. The compromise that emerged consisted of greater flexibility within specific types of contracts. Mexican firms can now hire workers who are in training for a specific period i.e. either three or six months. At the end of the training period, if employers do not want to hire workers permanently, they can terminate the contract without having to pay any severance. This allows employers to experiment with untried and especially young workers without introducing undue costs.

The third area of reform was allowing continuous contracts for seasonal workers. Many industries are cyclical in nature and have periods when they need to employ workers and periods when their demand for labour is zero. For example, employers who own amusement parks will typically need workers in the summer, but very few workers in the winter. As a result of the reforms, employers can now contract a worker permanently, but specify that the work is seasonal and only pay a wage during the period that the worker is needed. Rather than having to fire an employee during down times and then rehiring them, employers can now establish a contract in which, for example, an employee is only expected to work and to receive a salary during the summer. Under certain conditions employers can now hire employees by the hour as long as the rate adds up to no less than the monthly minimum wage.

Although these reforms are not very dramatic they have made Mexico's labour market more transparent and more flexible. Once these reforms were implemented the Mexican labour market performed better than the economy. In September 2013 Mexico was able to create 185 000 jobs in one month, which was the third-best month in Mexico's history. It used to be that the labour market and the economy increased at the same rate, but, since the reform of the labour market, the rate at which formal jobs are being created has exceeded the rate at which the economy has grown. This may be the result of the incentives and flexibility that the labour-market reforms created.

We think that the government has gotten the balance right. We did not create as much flexibility as private firms wanted, but there is now more flexibility than before while retaining many of the protections that benefitted unions and the formally employed. At the same time, while meeting many of the unions' demands, we also demanded that unions become more transparent and responsive to workers' need. We are happy with this trade-off and satisfied with the resulting increases in formal employment.

Q: *What is the relationship between government and the private sector and how responsible and dynamic are Mexican companies?*

Mexican companies are very dynamic and globally competitive companies are emerging in a number of new areas. For example, Mexico is starting to become a big player in theme parks. KidZania is a major exporter and has set up parks in places like Japan, Malaysia, and Indonesia. No one really predicted that Mexico would take the lead in such a creative and competitive global market.

In general, Mexico's global companies are socially responsible and well-regarded in the countries where they invest. Mexico has also created a good and transparent business environment both for foreign investors who wish to come into Mexico and also for Mexican companies who want to invest outside the country's borders. We have also found that foreign companies coming into Mexico are investing more and more in social responsibility projects and we encourage Mexican companies investing abroad to do the same.

Q: *If Mexico did not border the United States, or have the benefit of a significant free trade agreement with that country, what would your economic development have looked like? South Africa has the benefit of neither of those advantages.*

They used to say about my country: poor Mexico, so far from God, so close to the United States. There are on-going issues of tensions between the two countries, the most prominent being the continuing problem of border violence. However, at the same time, the legal and peaceful interactions over those borders far outweigh the problems. The border region is now the fourth-largest economy in the world. For every one dollar used to purchase Mexican goods by the United States, there is a value add of 40c for Mexico, which shows the extent to which Mexican producers have moved far beyond merely assembling US components. Mexico is becoming not just a place to locate factories so they can hire cheap labour, it is also becoming a vital market for the US as Mexican middle class consumers expand. Mexico's relationship with the US has matured and diversified. Ninety per cent of Mexican exports to the US are now manufactured goods.

Q: *One of the reform thrusts in Mexico is to dismantle monopolies in critical areas, but developing countries often lack scale, and if the authorities break up a dominant firm which has been established within their economy they may be undermining economies of scale and creating inefficient, uncompetitive firms. What has Mexico's experience been with this dilemma?*

Economies of scale in a country that is open to the world market are relatively easy to achieve. For many Mexican companies the only market they know is the world market. That is especially the case in commodities, where the prices are not set within the country and it is therefore desirable for firms to be both as big as possible and as competitive as possible. But there are other sectors of the Mexican economy where protected industries were highly oligopolistic and charged higher prices

than those prevailing in other economies as well as, many believed, higher prices than those that would emerge in more competitive markets. This tended to be especially the case in services.

So, in general, by creating more competition and establishing an ombudsman with the capacity to break up oligopolies and to introduce asymmetric regulation for dominant market players, we believe we have significantly strengthened the Mexican economy. For example, in the case of communications, the oligopolistic firm, Telmex, a major Mexican telecommunications company, decided – as soon as they heard that the new law was going to pass – to divest part of their investments. The interesting part of the story is that Telmex is worth more since they announced the divestiture than they were worth before they divested.

This is so because investors almost certainly perceived that Telmex was too big under almost any regulatory regime and any definition of dominance. By removing that risk and creating certainty that they would be compliant with new regulations, investors became more willing to invest in the firm.

Introducing these reforms, especially in service markets heavily consumed by the poor, makes sense both in terms of improving the efficiency of the Mexican economy and in terms of making critical services more affordable for poor Mexicans.

Q: *To what extent do different regulatory standards undermine trade and greater co-operation between countries? This appears to be a major barrier within BRICS.*

Mexico is determined to create an environment for greater global integration and to not let an issue like regulatory standards get in the way of that. We believe this is vital for our economic future as we are already intricately tied up with the future of other countries. If one were to look at the typical day of a Brazilian, for example, it quickly becomes obvious that he or she interacts regularly with Mexican products and Mexican companies. When she wakes up in the morning and buys some bread, in all likelihood, it would be manufactured, produced and distributed by Bimbo, which is a large Mexican manufacturing firm. When she uses an oven to warm the bread that would probably have been produced by Mabe, one of the largest producers of kitchen appliances in the world. The same person would then probably drive to work in a car manufactured wholly or in part in Mexico. If she drinks a soft drink it would probably be bottled by a Mexican company called Femsa, which also has massive investments in countries like the Philippines. The credit the Brazilian accessed to pay for many of these purchases could have come from a Mexican bank based in Brazil. And if this person happened to be bitten by a spider, the antidote would be Mexican as well.

As a result of all these interactions Mexico and Brazil have come closer and closer together, even at a cultural level, and the two countries are working to eliminate all the barriers that stand in the way of further interaction. I believe the countries within BRICS can embark on a similar process with each other and with the rest of the world.

Within the Pacific Alliance that Mexico has with Chile, Colombia and Peru, we have worked not only on expanding trade but also on harmonising regulatory standards. We believe that South Africa could observe and learn from our efforts in this respect.

Today Mexico recognises the regulatory standards of all the countries in the Pacific Alliance, which means that a pharmaceutical product licensed in Mexico can be traded and sold in the other alliance countries as well. We are in favour of harmonising our standards with as many countries in the world as possible to open up markets and to generate trade in as many goods as possible.

Q: *What is the level of women's participation in electoral politics and in political leadership, and how intensively do women participate in the economy?*

Mexico recognises that the participation of women in the economy and in politics is an important structural reform. An important motivation for the pursuit of growth has been to create an environment that would allow women to participate in the economy to a greater extent. During the past ten years Mexico has invested heavily in day-care facilities. These have been provided by both the public sector and by the private sector. The government made subsidies available to private providers in cases where no public services were available. We believe this programme has allowed women to participate in the economy to a greater extent than before.

We have also found that credit and social programmes work best if we channel them through women. This is especially applicable to Mexico, due to the high level of migration which typically involves males. Women tend to stay behind and are often the sole providers in many Mexican households. The Mexican government is therefore committed to working closely with Mexican women, and think of them as the administrators of many social programmes.

Women have increased their participation in politics and leadership, but there is still a lot to do. An additional reform that the President pushed through recently is a provision that forces political parties to ensure that half of their candidates are women. At the level of the cabinet, three of the eighteen ministers are women, which is not enough, and women make up about a third of parliament. The new reform will ensure that this proportion rises substantially.

Mexico is working hard to create a conducive environment in which women will be empowered to contribute to the economy and become leaders in business as well as politics.

Q: *There is currently a move by the European Union (EU) and the United States to establish a free trade agreement. Would that impact negatively on the Mexican economy?*

We think that the negotiation between the EU and the US is unfortunate for a number of reasons. Canada already has a trade treaty with the EU. The United States will eventually reach an agreement and Mexico also has a separate agreement. There will then be three separate bilateral agreements. It would be better for the North American region as a whole to reach one consolidated agreement with the EU because many of the value chains that generate the products for trade are North American in nature. When Mexico negotiated with the EU we had to be mindful that whatever was negotiated did not impinge on the capacity of these value chains to function properly. Interestingly, many of these value chains have European investors, so it is in the best interest of Europeans and of North Americans to ensure negotiations allow us to take full advantage of these value chains. Given all of these interactions and common interests, it would have been better for all three North American countries to be at the main table with EU negotiators and to discuss one regional arrangement together. Canada, the US and Mexico have all said that they will pursue convergence towards a more regional arrangement, but it would have been better to have a regional perspective from the start.

Q: *How can Mexico and South Africa strengthen their ties?*

Ties between Mexico and South Africa should be much stronger. We should trade far more extensively with each other. At the moment trade between our two countries adds up to less than a billion dollars. We also exchange fewer than 30 students each year. We should be exchanging students,

academics, and teachers to a far greater extent. In order to strengthen ties between Mexico and South Africa we also need a direct flight between the two countries. It currently takes 20 hours to fly from Mexico City to Johannesburg. We are building a new airport that will increase the number of passengers flying into Mexico from 36 million per year to 120 million. Hopefully this will result in a direct flight between Mexico and South Africa in the near future.

Concluding remarks: Ann Bernstein

I think it's good for South Africans to lift our heads up and look at other countries. We often get very intensely involved in all the challenges and arguments at home. A lot of things, both good and bad, are going on in South Africa, but it is valuable to look at other countries. In Mexico reform is happening and economic growth is maybe not stellar but it is steady and the economy is diversifying and the middle class is growing. Mexico shows that consistent growth, the quest for ongoing integration with the rest of the world and a determination to improve through entrepreneurship and better policies can be a solid basis for economic success from what seemed, to many, to be rather unpromising foundations in the 1990s. These are issues that are important for South Africans to consider. South Africa too urgently needs stronger growth and better market-supporting policies if we are to deal with unemployment and achieve faster growth. Mexico's experience points to some of the ways in which these goals can be pursued.

APPENDIX: THE PACT FOR MEXICO

Even before he took office (in Mexico there is a five-month lag between the time the president wins an election and when he actually takes office) President Peña Nieto sat down with the main opposition parties – the National Action Party and the Party of the Democratic Revolution – to discuss a series of reforms that came to be embodied in the 'Pact for Mexico'.³ The pact sought and largely achieved cooperation from all three major political parties (as well as the Green Party) for key reforms in labour markets, politics, banking, education, and energy.

The official version of the Pact contains 95 proposals of broadly market-supporting reform. The agreement illustrates the broad-based recognition by Mexico's stakeholders of the benefits of accelerated growth and their shared commitment to cooperation in achieving it. The reform programme embodied in the Pact tackles the challenge of making the economy more competitive while at the same time strengthening political institutions. A third key component is expanding social rights for all Mexicans, described by one Mexican think tank analyst as a strategy to 'get a lot of carrots ready in exchange for tax reform'.⁴ The principle of trade off in advancing reform is clear in the terms of what the Pact proposes.

Highlights of the programme for stimulating competition across the economy include.⁵

- Encouraging labour market flexibility, productivity and access of women and young people to jobs;
- Modernising the telecommunications sector, broadening digital inclusion and improving telecommunication services to business and customers;
- Enabling competition in the financial sector and redefining the mandate of Mexico's development banks, orienting them to foster market development;
- Simplifying the tax system to promote compliance; and
- Opening the energy sector to private investment, technology, and competition; increasing productivity; and lowering costs of energy production.

Strengthening political institutions involves:

- Political and electoral reform to consolidate democracy through such mechanisms as legislative re-election and coalition governments;
- Improving accountability in the use of public resources; and
- Strengthening state and municipal finances, fighting corruption, and improving the criminal justice system.

The expansion of social rights for all Mexicans includes:

- Education reform in the fields of evaluation and professionalization of teachers as well as administrative autonomy for public education;
- A universal pension at the age of 65; and
- Unemployment insurance in the formal sector.

In the first 12 months of the Pact's life, Mexico's stock index rose 5% and the peso strengthened 3.5% against the dollar, while Brazil's leading stock index fell 13% and its currency by 14%.⁶ However Mexico's people have lately been less impressed than the markets, with poll ratings going against President Peña Nieto. An analysis in the London Financial Times pointed to possible reasons for this: 'The first is common to all structural reform programmes. The special interest groups that are immediately hurt by Mr Peña Nieto's reforms are vocal and concentrated, while the beneficiaries are diffuse. In addition, the benefits of his reforms are deferred.'⁷

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NOTES

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