

Mexico's Economy

Is Mexico the New China?

About.com US Economy

By Kimberly Amadeo

Mexico is quickly becoming an emerging market heavy-weight. Its economic output, as measured by Gross Domestic Product (GDP) was \$1.761 trillion in 2012. This was much less than its primary trading partner, the U.S. (\$15.94 trillion) but larger than its other NAFTA partner, Canada (\$1.513 trillion). Mexico's geographic size is equivalent to Saudi Arabia, but supports five times as many people while exporting 1/4 of the oil.

Mexico's 2012 GDP growth rate was 3.9%, faster than either the U.S. (2.2%) or Canada (1.8%). Mexico's standard of living, measured by GDP per capita, was \$15,600, less than half that of its other NAFTA partners. (Source: CIA Factbook)

Mexico's Economy Depends on Exports

Mexico is the 16th largest exporter in the world, and 82% of these exports go to the U.S. Trade with the U.S. and Canada has tripled since the implementation of the North American Free Trade Agreement (NAFTA) in 1994. More than 90% of Mexico's trade is under 12 free trade agreements with over 40 countries including China, Guatemala, Honduras, El Salvador, the European Free Trade Area, and Japan. These trade agreements are one reason for Mexico's success.

Mexico manufactures and exports the same amount of goods as the rest of Latin America combined. In fact, foreign trade is a larger percentage of Mexico's economy than any other large country. Mexico's #1 export is manufactured products. (Source: The Economist, Senores, Start Your Engines, November 24, 2012; CIA World Factbook, Mexico's Economy)

Mexico has recently built up its infrastructure to enhance trade. In 2012, Mexican telecommunications czar Carlos Helu was the world's richest man. However, his company is



One of Mexico's most important exports is oil.

Photo: David McNew/Getty Images

nearly a monopoly, controlling 70% of mobile phones, 80% of home phone lines, and 70% of broadband. Some are concerned that this lack of competition is hampering growth. Mobile-phone penetration in Mexico is only 85%, about the same as Iraq. A fast broadband connection costs double, the same as in Chile. Other near-monopolies include Bimbo (bread), Cemex (cement) and Televisa (television).

Mexico is the world's ninth largest producer of oil, exporting nearly three million barrels per day. This is less than Iran, China and Canada, but more than the Kuwait, Nigeria and Venezuela.

Why Mexico Is Attractive to Investors

Mexico's economy and culture are changing. For years, Mexico's economy under-performed Brazil's, but in 2012 it grew faster. Mexico is now a major manufacturing center for electronics, including most of the flat-screen TVs sold in the U.S., medical devices and aerospace parts. (Source: NYT, Mexico, the New China, January 26, 2013)

Part of the change includes a new President, Enrique Peña Nieto. In December 2013, Congress passed his bill, proposed in August, to partly privatize Mexico's oil industry to attract the foreign direct investment needed. Foreign oil companies could share in any profits from oil recovered from new wells. If the terms are right, this would allow exploration of Mexico's rich deep-water oil fields and its natural gas reserves.

Foreign investors will help extract more oil only if they can share in the revenue. (Source: WSJ, Behind Mexico's Oil Revolution, December 19, 2013)

Privatization was resisted by prior administrations. The country's oil monopoly, Pemex, was state-owned, and sent all its revenues to the federal government. As a result, about one-third of the government's income is dependent on oil. Instead of investing in developing new fields, the government had been treating Pemex like a cash cow, trying only to maximize short-term profit. As a result, production fell 25% in the last ten years.

President Peña Nieto is also looking to privatize electricity generation, lowering its price. Investors also like Mexico's involvement in NAFTA, the independence of its central bank, and its fiscal restraint. (Source: WSJ, Mexico Vows to Overhaul Oil and Gas Industries, August 13, 2013)

Challenges to Mexico's Economy

The biggest challenge has been to get rid of the drug cartels. President Peña Nieto's focus is to by increase security spending from 1.5% of GDP to 5% -- the level that worked for Colombia. He would draft 40,000 soldiers into the police departments themselves. (The Economist, A Glimmer of Hope, November 24, 2012)

President Peña Nieto replaced President Felipe Calderón-Hinojosa, who initiated a controversial crackdown on organized crime and corrupt local police. It amounted to an all-out war, increasing violence including retaliation to civilians by the cartels. Many Mexicans blamed Calderon for upsetting the cartels and increasing violence.

Calderon had reason to be concerned. Many of Colombia's cocaine operations simply moved to their operations to Mexico when the Caribbean route was shut down. He was concerned that the cartels would simply take over the government. Calderon's crackdown was to improve Mexico's economic competitiveness. He also took steps to provide better healthcare, uphold legal institutions and protect the environment.

President Pena has also promised to upgrade schools, roads and health care services, and modernize the tax system and labor laws.

Surprising Facts About Mexico and Immigration

Many Americans are worried about illegal immigration from Mexico, but the country is actually gaining immigrants itself. The legal foreign-born population doubled from 2000 - 2010, to one million total. Of these, 750,000 are Americans. As a result, more Americans have immigrated to Mexico over the past few years than vice-versa. (Source: NYT, For Migrants, New Land of Opportunity Is Mexico, September 21, 2013)

Furthermore, the country's birth rate is trending down and may soon be below the U.S. The violence associated with drug cartels continues, as Mexico is a major underground trade route to U.S. addicts. However, the country's murder rate is slowly falling for the first time in five years. (Source: The Economist, After Darkness, Dawn, November 24, 2012) *Article updated December 19, 2013.*

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