Globalization Commentaries

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Mexico: Always Promising

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For more than a quarter century now, most emerging market and developing nations have been integrating themselves with the world economy. Some of these globalizers have done fairly well in terms of per capita income, but not Mexico. All of a sudden, Mexico is seen as one of the most promising destinations for emerging market trade and investment. Has Mexico learned the lessons of the past or will this spurt of attention be squandered like so many times in the recent past?

China and India sought to transform their economies around the same time as Mexico. These globalizers registered annual per capita growth rates of 9 and 4.7 percent since 1990. During this period Mexican GDP per capita has risen at just over one percent annually.

This is particularly devastating given that Mexico's job was arguably easier—all they had to do was integrate with the world's largest economy to the north. In 1994, they solidified a trade deal, the North American Free Trade Agreement (NAFTA), that gave them almost exclusive rights among developing countries to the US economy.

In its first five years, Mexico's trade and investment doubled but income growth declined relative to the first five years of the 1990s. Foreign investment wiped out local firms, so domestic investment slid to 19% of GDP (levels similar to the "lost decade of the 1980s) from a high of 24 percent in the 1970s. Integration also increased economic vulnerability – decimating the agricultural sector. Job growth and wages were slow, leading a half-million Mexicans to flee to the US each year for a better life. Many others migrated to Mexican cities and tourist areas to work in the informal economy.

And those were the good years. In 2001, China's entry into the WTO was a game changer. Despite higher tariffs and the Pacific Ocean, China lept over Mexico to become the largest supplier of manufacturing imports in the US. In 2000 both countries had close to 11 percent of the US manufacturing market, by 2010 China's share had risen to almost 30 percent while Mexico's stayed fairly still. For this period anyway, China beat Mexico at its own game—serving as the low-skilled export platform for manufacturing goods destined for the US.

From 2000 on, Mexico sat on the sidelines during the biggest developing country boom in recent history. Brazil, China, India and South Africa get praise for registering income growth rates of 5 and 9 percent annually for India and China, and over 2 percent for Brazil. Mexico's post 2000 growth was less than one percent annually.

Not anymore says the investment community. Growth has slowed in most emerging markets and

Mexico has become the most promising emerging market to invest in. In China, wages have been increasing at close to ten percent annually and its currency has been appreciating for the past few years. Mexico, by shifting from wage-work to contract employment and other measures to ensure “flexibility in labor markets” has kept wages down. As recently reported by the Financial Times, in 2001, Chinese manufacturing wages were 35 cents per hour, compared to $1.63 in 2011. The Mexican wage was $1.72 per hour in 2011 but was $2.10 in 2011.

Exports and investment are surging for Mexico, as are headlines to invest even more. Will Mexico translate these gains into broad-based growth? To do so, Mexico will have to actively manage the inflows of private capital into the country so as not to develop the currency appreciation and asset bubbles that led to the Tequila crisis after the last time Mexico was the favorite on the block. Mexico will also have to create parallel policies, like China did, where manufacturing is coupled with investment in innovation, making linkages to local firms, investment in agriculture, and benefits to workers.

Most emerging market and developing countries realized that unbridled neo-liberalism was not the recipe for economic development. They adopted a hybrid model of states with markets and have grown at record pace. Mexico should promise to learn from its peers this time, so once again surges of trade and investment don’t lead to busts that adversely effect the majority of Mexicans.