



Growth and Development Profile: Mexico

A Level Macroeconomics

Quick overview on the Mexican economy

- Mexico is an **OECD country**
- Now **upper middle income** – but few countries make the transition to high income
- Mexico has become a **manufacturing hub** in the global economy – utilizing scale economies
- Fierce competition in manufacturing from China and emerging Asia / Africa
- Now **9th largest export economy** in the world and 21st most economically complex
- Very high dependency on exports to the USA
- IMF Report (2019) stated that “Mexico faces three structural challenges—**corruption, informality and crime.**”

| Indicators for Mexico | |
|--|------------------|
| GNI per capita (PPP) in US\$ | \$17,628 |
| Latest HDI ranking | 76 th |
| Malnutrition data for children under 5yrs (Stunting (moderate or severe)) | 10% |
| Child labour (% of children ages 5-17 years) | 5% |
| Healthy Life Expectancy at birth (years) | 66 years |
| Gini coefficient (measure of inequality) | 0.43 |
| Inward Foreign Direct Investment (% of GDP) 5-year average FDI inward flow | 2.7% |
| Remittances (net, % of GDP) | 2.9% |
| Overseas aid (net, % of GDP) | 0.1% |
| Working poor at PPP\$3.20 a day (% of total employment) | 9% |

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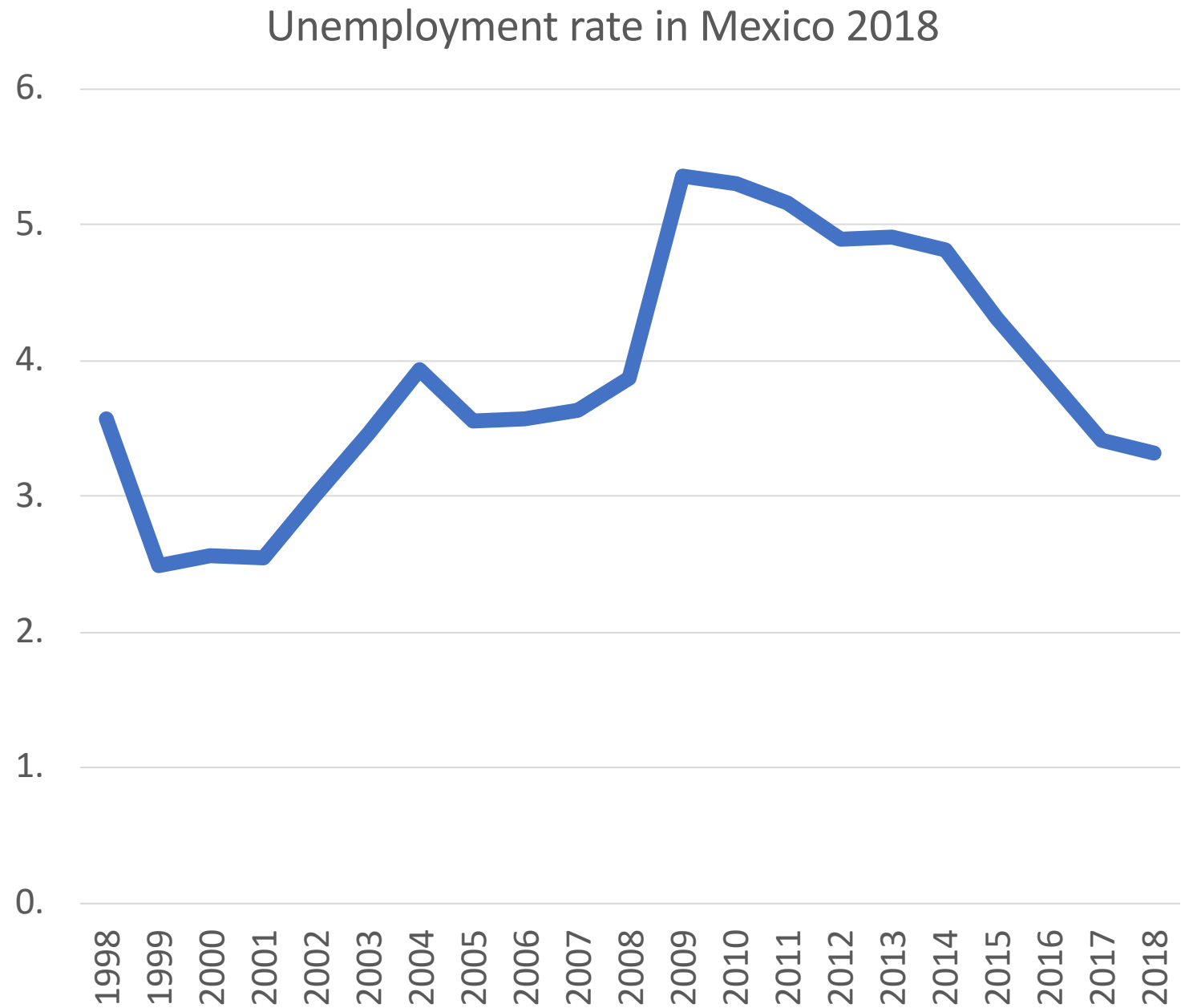
| Indicators for Mexico | |
|---|-------------------|
| Health spending as a % share of GDP | 5.5% |
| Income share (%) of the bottom 40% | 15.5% |
| Income share (%) of the richest 10% | 34.8% |
| Population of females with at least some secondary education | 58.4 |
| Population in severe multidimensional poverty (per cent) | 1% |
| Median age (years) | 29 years |
| Government tax revenue (total tax revenue as a per cent of GDP) | 13 percent |
| Trade as a share of GDP (exports and imports) | 80% |
| Youth unemployment rate (per cent) | 6.8% |
| Renewable energy consumption (% of total final energy consumption) | 9.2% |

Key macroeconomic indicators

Unemployment in Mexico is very low. At the end of 2018, the average unemployment rate in Mexico was 3.3%, the fourth lowest among the countries of the Organization for Economic Cooperation and Development (OECD), only behind the Czech Republic, Japan and Iceland.

| Key Recent Macro Data for Mexico | |
|--|-------------|
| Average annual real GDP growth, 2010–20 (%) | 2.6% |
| Inflation rate (%) | 3.1% |
| Unemployment rate (% of labour force) | 3.3% |
| Fiscal balance (% of GDP) | 0.9% |
| Current account balance (% of GDP) | -1.9% |
| External debt (external debt to GDP ratio) | 36.6% |
| Investment spending (% of GDP) | 22% |
| Gross national savings (% of GDP) | 21% |

Mexico: Unemployment rate from 1998 to 2018

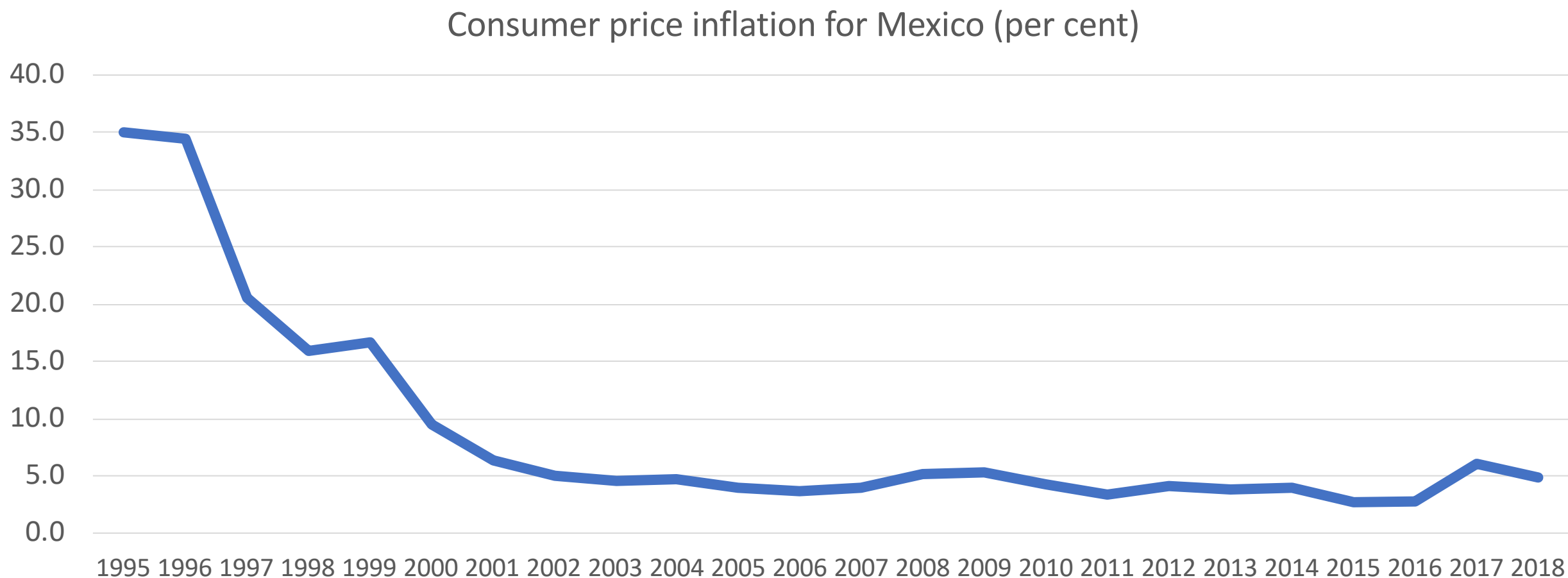


Key macroeconomic indicators

Consumer price inflation is now more firmly under control – heading towards the target of 3 per cent although the Mexican central bank has recently raised interest rates to 8 per cent to control inflationary pressures. And this has slowed down economic growth.

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Mexico: Consumer price inflation since 1995



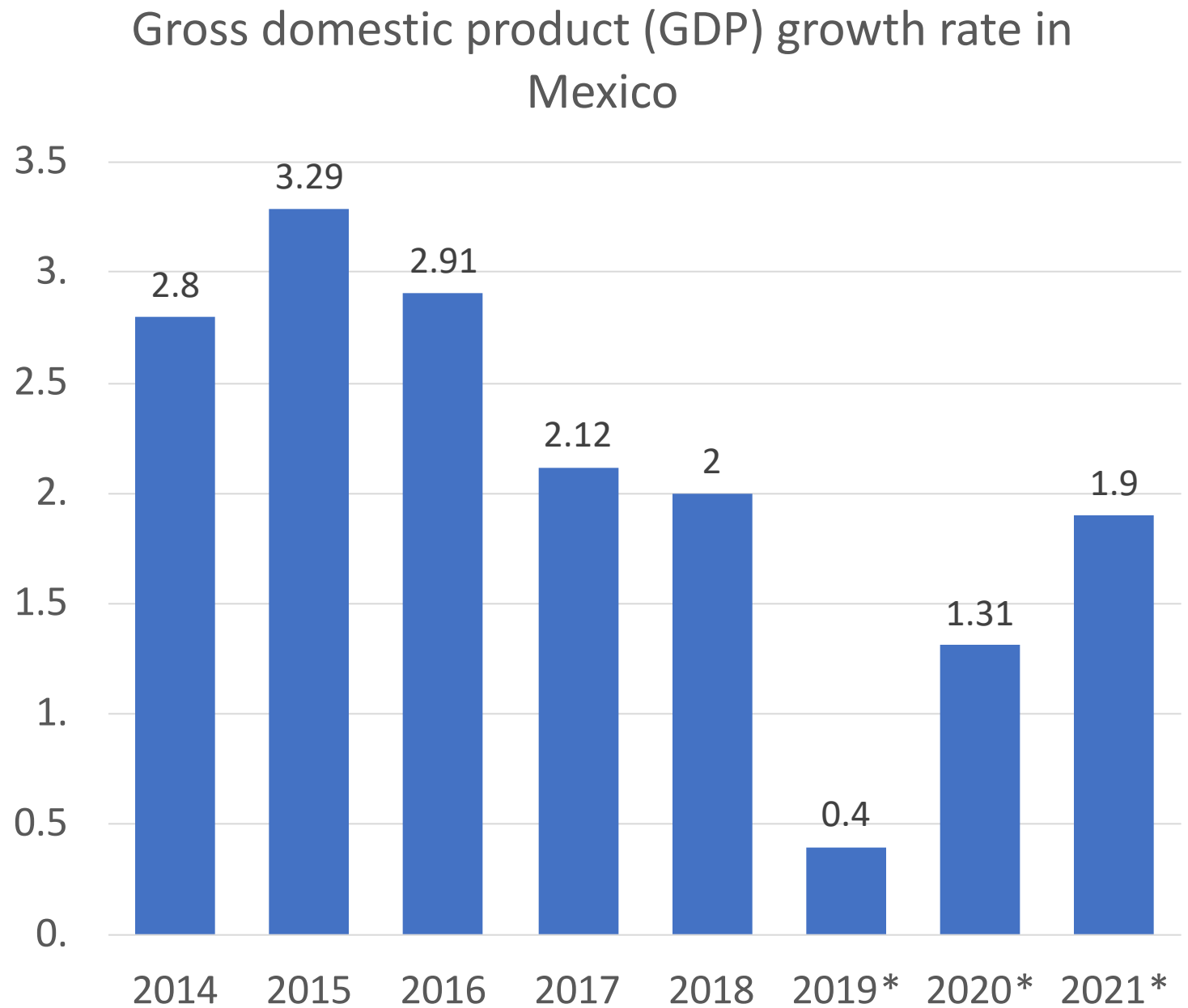
Key macroeconomic indicators

The economic growth rate of just over 2.5% pa over the last decade is not fast enough for a country that is hoping to reach high income, advanced economy status. Per capita income growth is much lower once we account of population growth.

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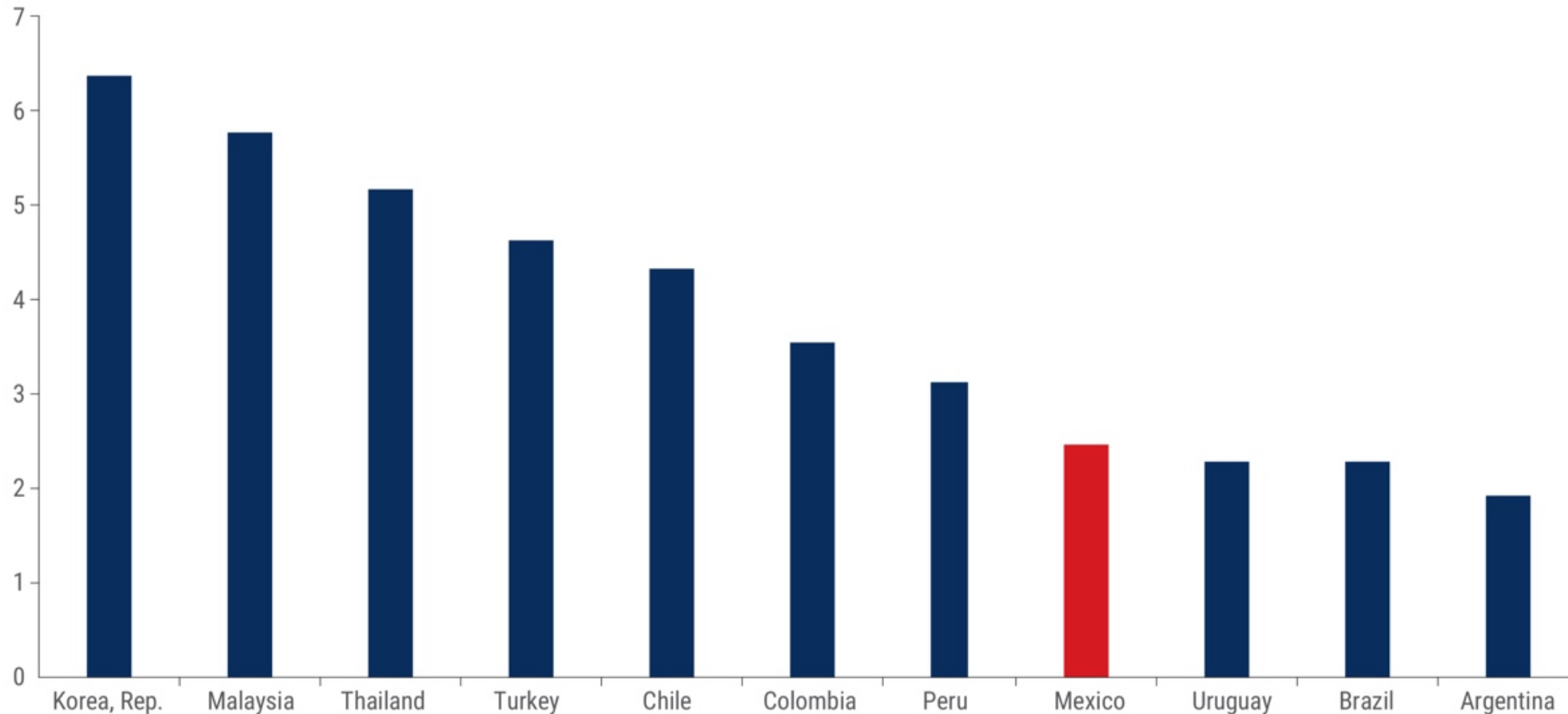
Mexico: Real gross domestic product growth rate

Source: IMF World Economic Outlook



Average real GDP growth rates for Mexico and comparators, 1980–2016 (%)

Countries in the middle-income trap see growth slow before they reach high per capita incomes



Source: Data of WDI (World Development Indicators) (database), World Bank, Washington, DC, <http://data.worldbank.org/products/wdi>.

Note: Growth rates of GDP measured in constant local currency unit.

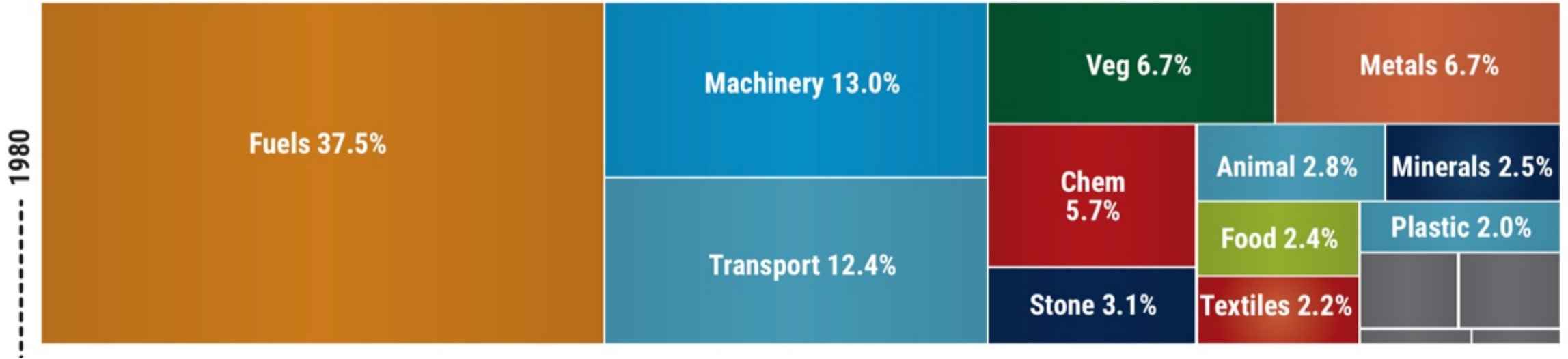
Other Background

Mexico has more **free trade agreements** (FTAs) than any other country in the world—12 FTAs with 46 countries—including FTAs with the European Union, Japan, Israel, and ten countries in Latin America. Mexico is a member of the Pacific Alliance formed by Chile, Colombia, Mexico and Peru, which all border the Pacific Ocean.

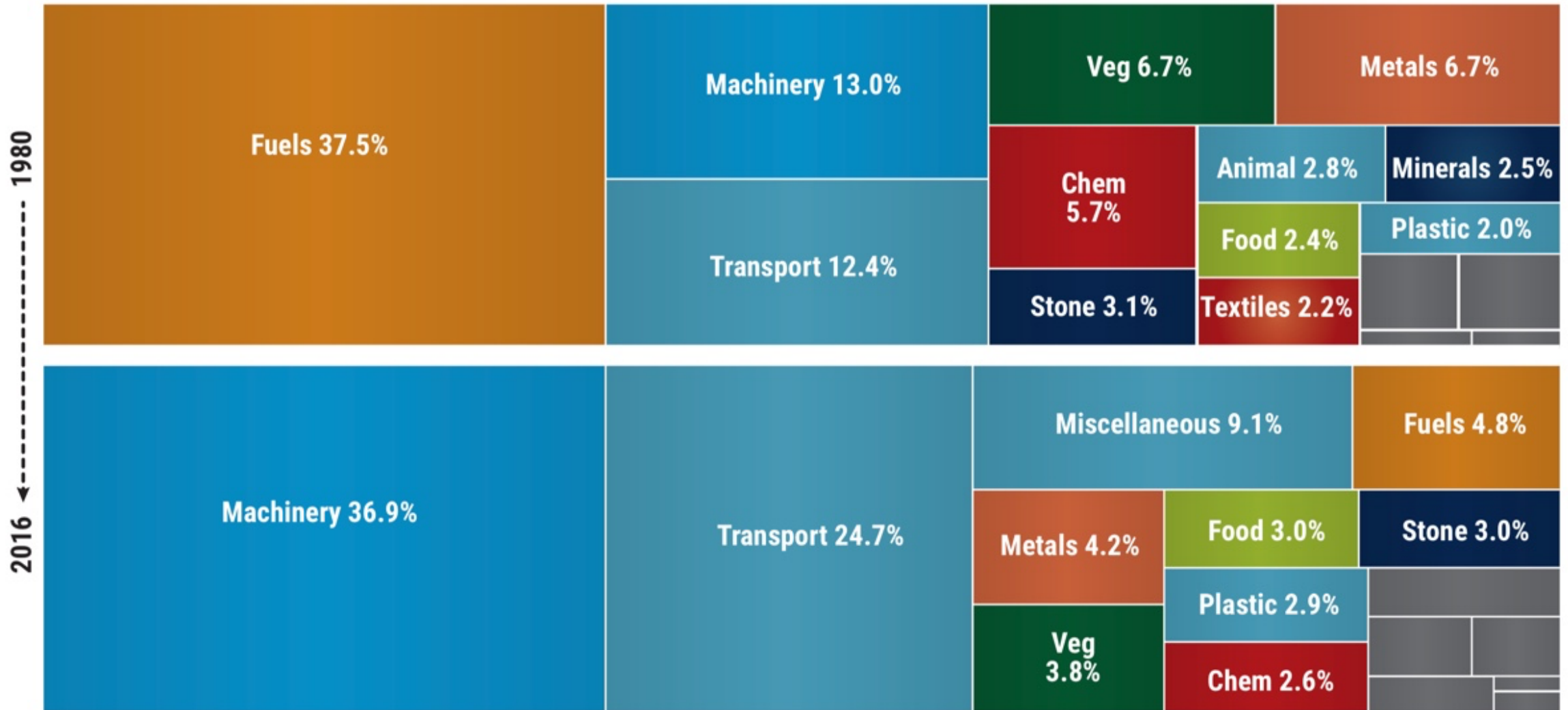
Key Background Information for Mexico

| | |
|--|--|
| Currency unit | Peso |
| Currency system | Free floating currency |
| Policy interest rate (%) | 8% |
| Member of a Regional Trade Agreement? | Yes including United States–Mexico–Canada Agreement |
| Main corporate tax rate (Per Cent) | 30% |
| Competitiveness Ranking (World Economic Forum) | 48 th / 141 countries |
| Corruption Perception Ranking (Transparency International) | 138 th / 180 countries |
| Ease of Doing Business Ranking (World Bank) | 60 th in 2018 out of 190 countries (54 th in 2017) |

Mexico's changing structure of GDP



Mexico's changing structure of GDP







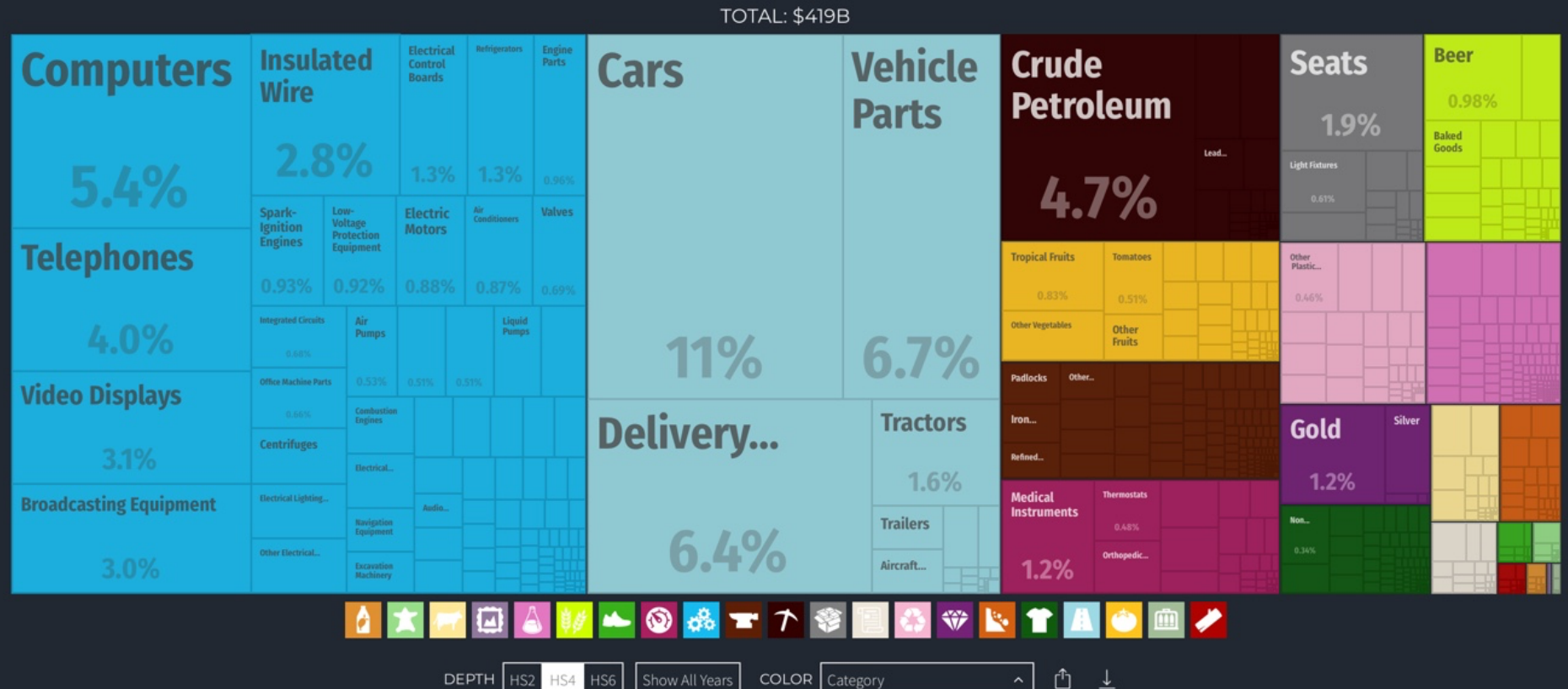
Source: Data of WITS (World Integrated Trade Solution) (database), World Bank, Washington, DC, <http://wits.worldbank.org/WITS/>.

Mexico has successfully diversified away from oil

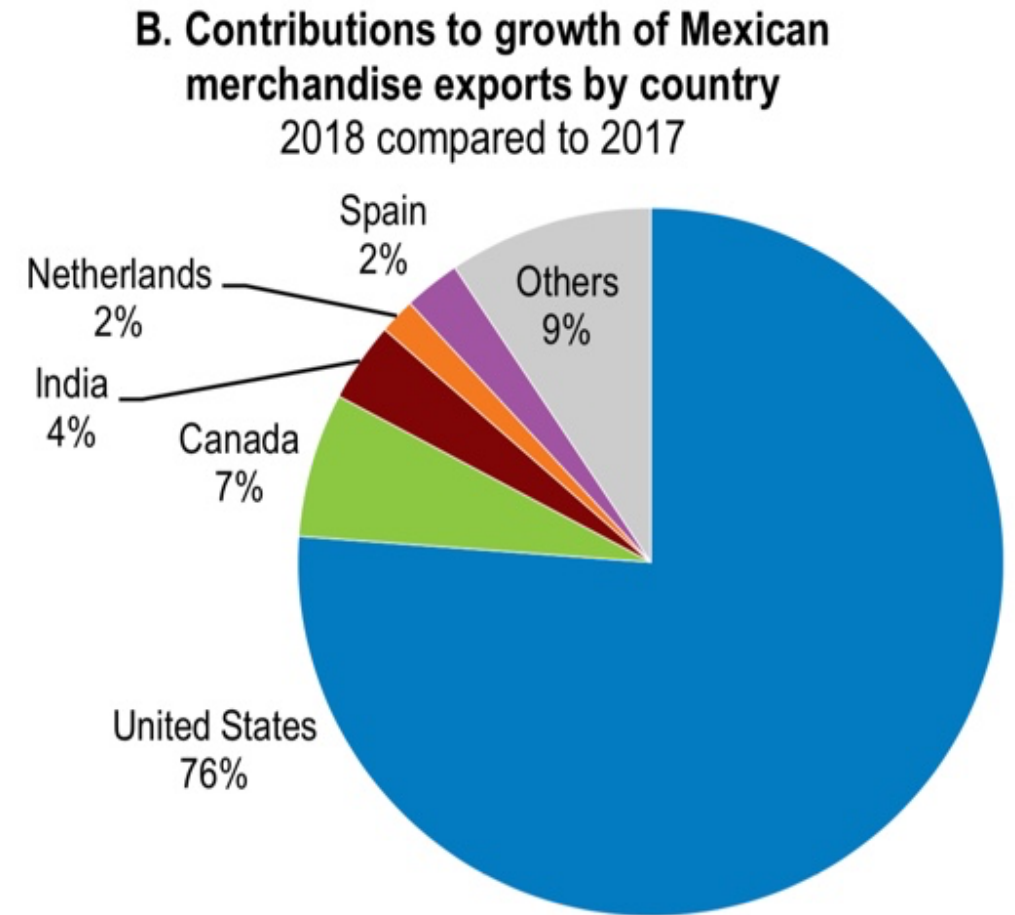
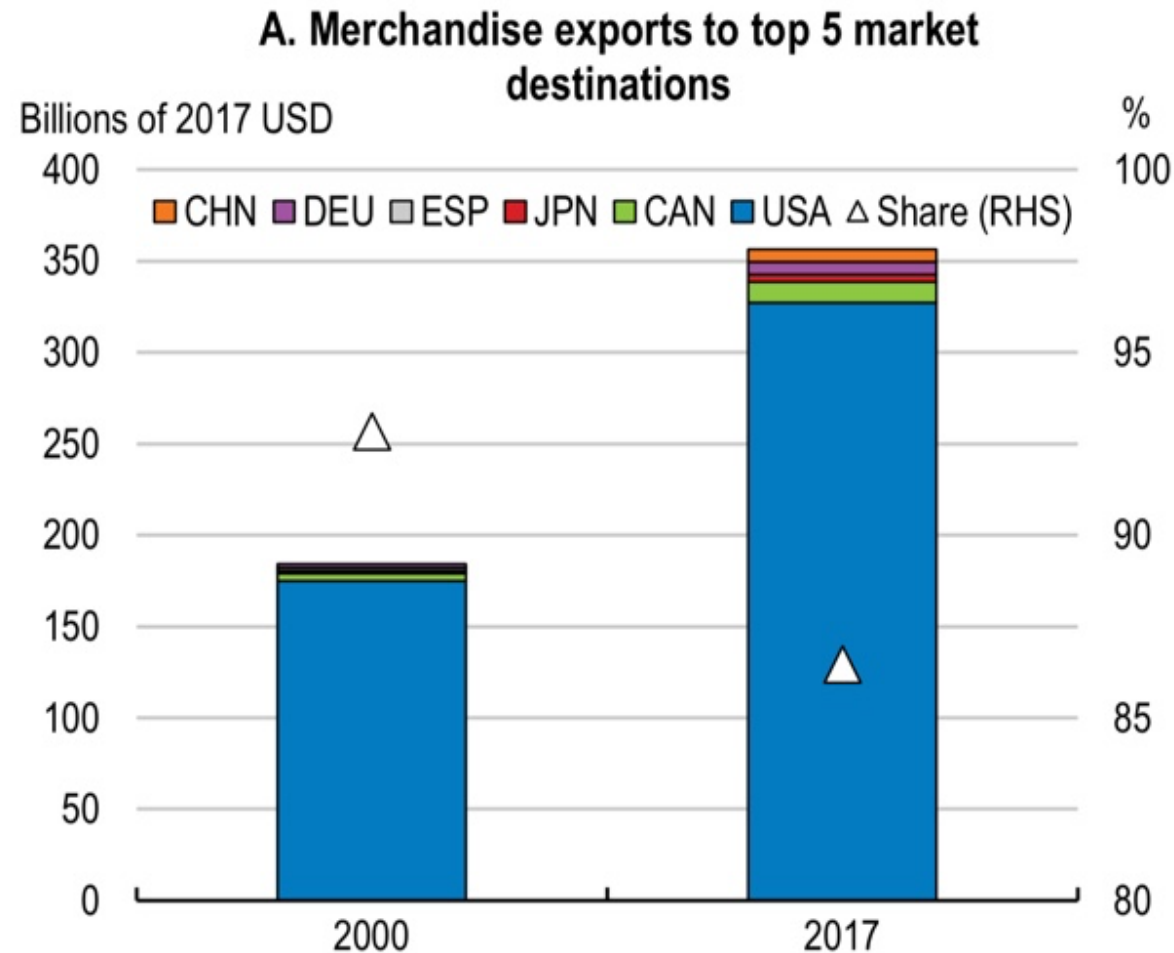
Exports

In 2017 Mexico exported \$418B, making it the 9th largest exporter in the world. During the last five years the exports of Mexico have increased at an annualized rate of 2%, from \$373B in 2012 to \$418B in 2017. The most recent exports are led by Cars which represent 10.8% of the total exports of Mexico, followed by Vehicle Parts, which account for 6.69%.





<https://oec.world/en/visual>



Gravity theory predicts that export flows from Mexico to the USA would be around 1/3rd of exports – while actual flows are equivalent to 72% of exports.



Mexico's exposure to shocks

- **Protectionism**: E.g. US threat to levy import tariffs on Mexico in the absence of measures to curb cross-border migration
- **Lower oil prices and oil production** – **Pemex** is Mexico's biggest company and is the most heavily indebted company in the world – their debts amount to 9% of Mexican GDP
- **Natural disasters**: Mexican territory is highly exposed to natural disasters such as earthquakes, droughts, cyclones, hurricanes and floods.

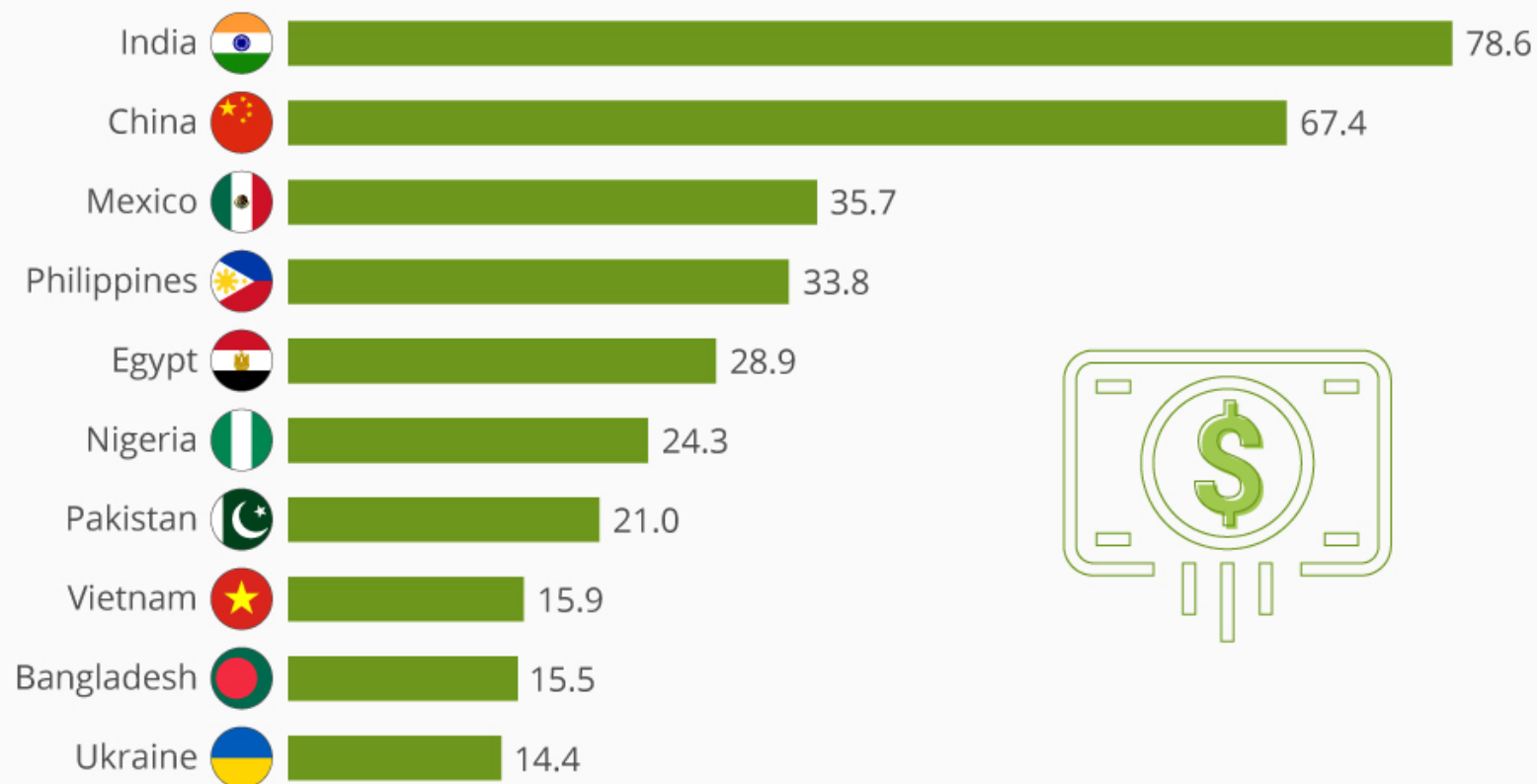
Banco de México
Cincuenta Pesos



Examine the importance of remittances to a country such as Mexico

The World's Top Remittance Recipients

Top-10 remittance-receiving countries in 2018 (billion U.S. dollars)



Remittances for Mexico:

- Flow is strongly associated to the performance of the USA economy.
- Depreciation in Mexican peso v US dollar increases the value of \$ remittances sent back to Mexico
- Several FinTech start-ups are engaged in trying to lower the cost of remittance transfer.

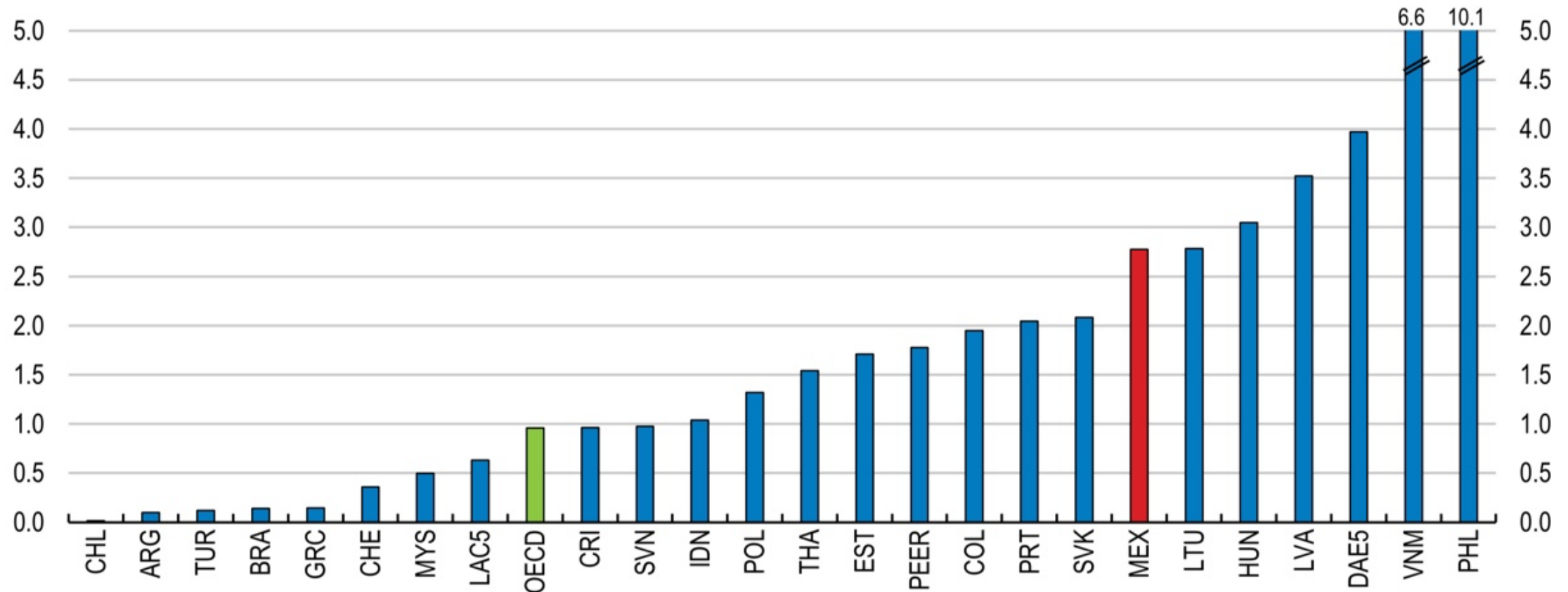


@StatistaCharts Source: KNOWMAD via World Bank

statista

Remittances into Mexico were worth **\$230 per capita** in 2017.
In 2018, 94% of these flows originated in the United States

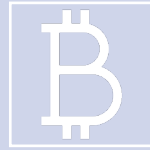
A. Remittances as a percentage of GDP, 2018



Assess the benefits and costs of FDI for a country such as Mexico



Foreign direct investment into Mexico



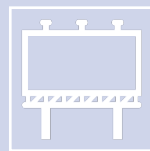
Since 2005, Mexico has received, on average, US\$28 billion in inward FDI a year (worth 3 percent of GDP) or 12% of total investment.



Mexico is ranked 54th out of 190 in the World Bank's 2019 Doing Business ranking



Foreign investments are mostly concentrated in towns neighbouring the U.S border (where many assembly factories are located)



Examples of companies with investment in Mexico - IBM, Coca-Cola, Motorola, Walmart, Procter & Gamble and L'Oréal

| Foreign Direct Investment | 2016 | 2017 | 2018 |
|--|---------|---------|---------|
| FDI Inward Flow (<i>million USD</i>) | 30,865 | 32,091 | 31,604 |
| FDI Stock (<i>million USD</i>) | 473,424 | 490,574 | 485,807 |
| Number of Greenfield Investments*** | 485 | 565 | 600 |
| FDI Inwards (<i>in % of GFCF****</i>) | 11.1 | n/a | n/a |
| FDI Stock (<i>in % of GDP</i>) | 45.3 | n/a | n/a |

Source: UNCTAD, Latest available data.

FDI into Mexico - Overview

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FDI INFLOWS BY COUNTRY AND INDUSTRY

| Main Investing Countries | 2018, in % |
|---------------------------------|-------------------|
| United States | 38.8 |
| Spain | 13.1 |
| Canada | 10.1 |
| Germany | 8.2 |
| Japan | 6.7 |

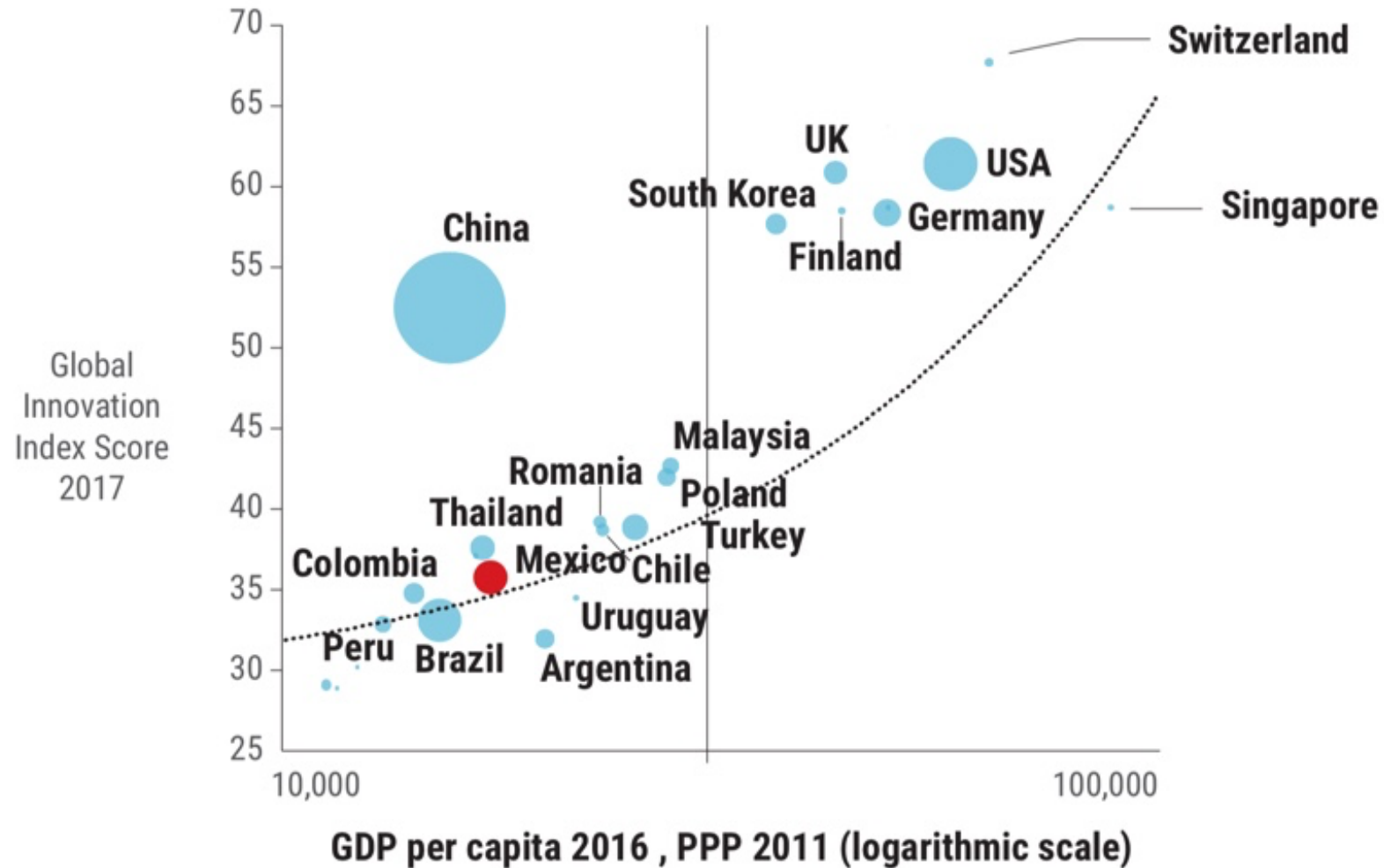
| Main Invested Sectors | 2018, in % |
|--|-------------------|
| Manufacturing industry | 49.1 |
| Electricity, water and gas supply | 13.5 |
| Retail and wholesale trade | 8.9 |
| Financial services | 7.9 |
| Mining | 4.4 |

FDI into Mexico - Overview



Examples of barriers to growth & development in Mexico

Mexico has a relatively low rating for research & innovation

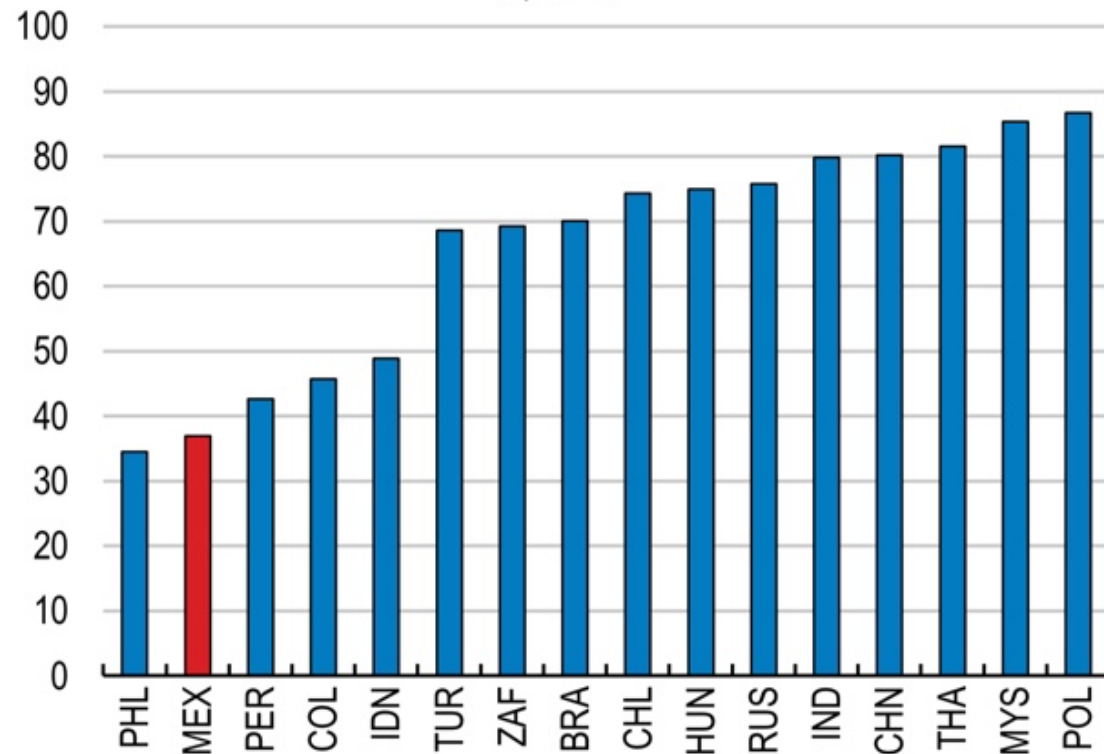


An under-developed financial sector can also hamper growth

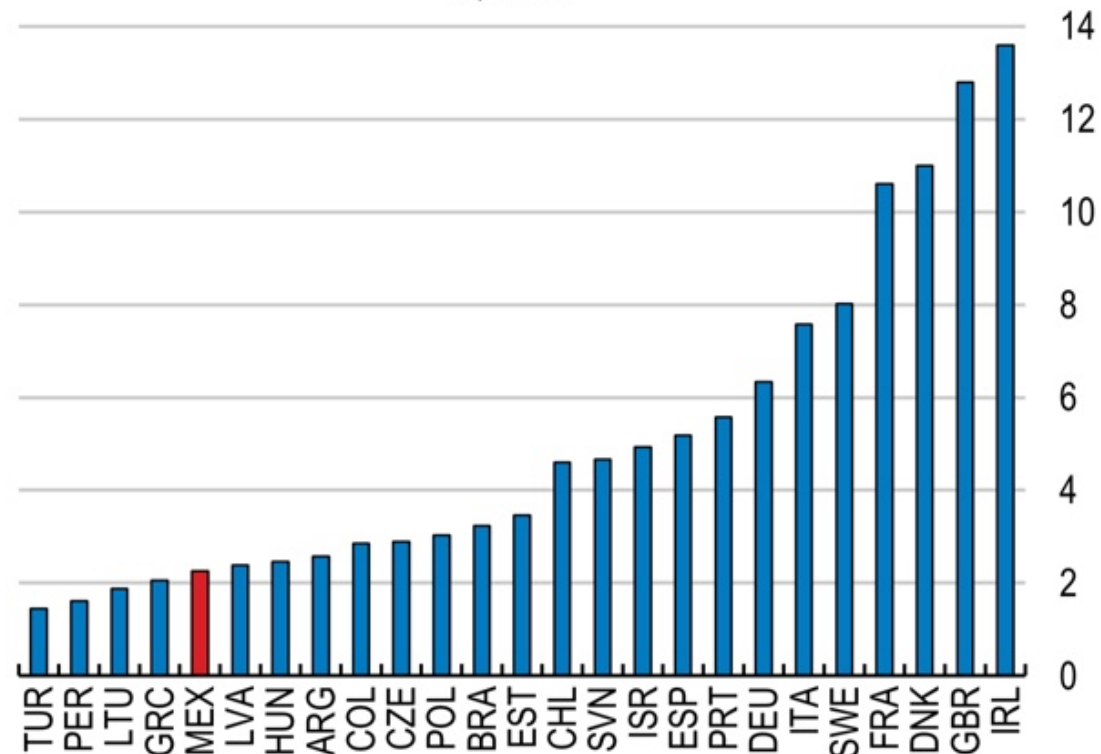
Cash remains the dominant means of payment – supporting the informal economy and limiting government tax revenue receipts

Low banking sector competition increases the cost of loans for smaller businesses

A. Share of adults holding an account
%, 2017



B. Insurance penetration
%, 2017

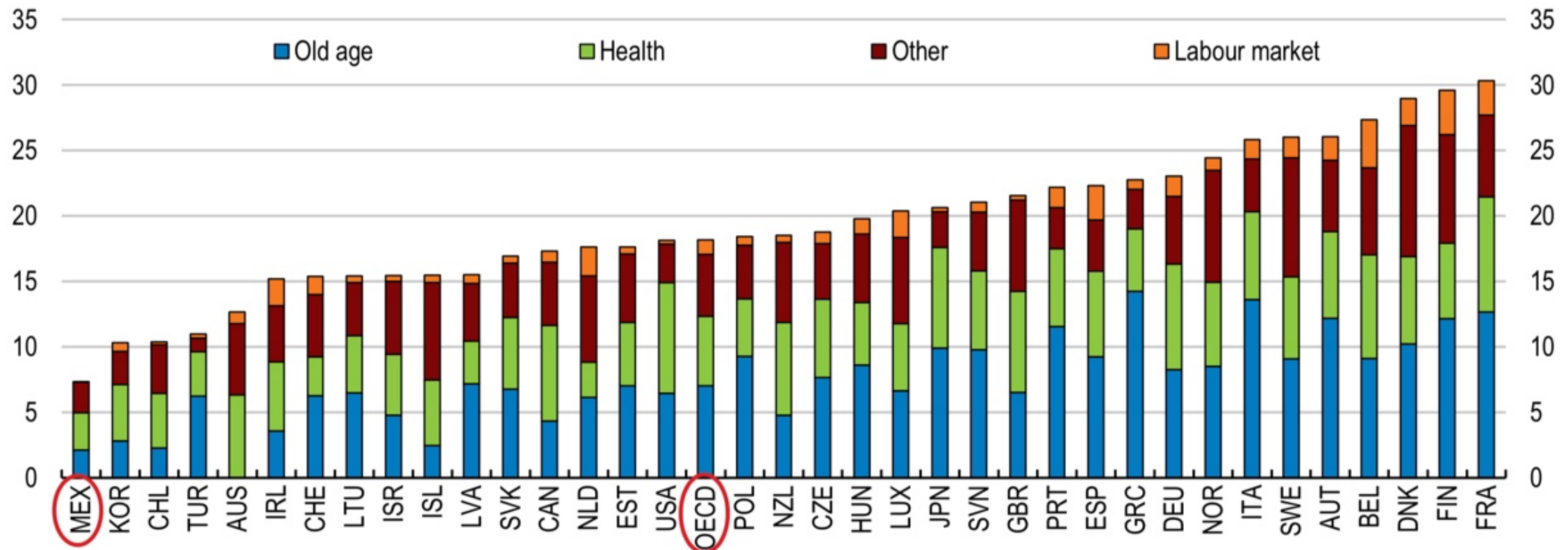


Note: Insurance penetration is the ratio of direct gross premiums to GDP.

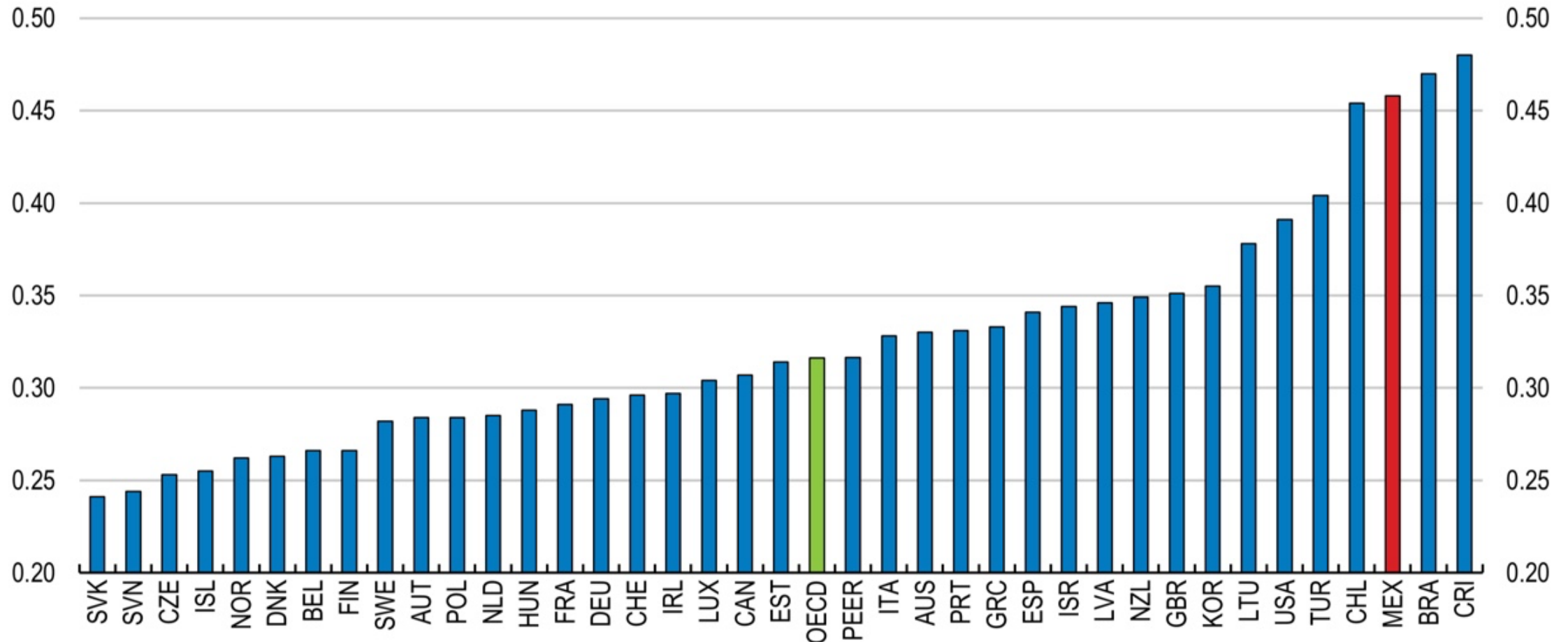
Source: World Bank, Global Findex database (2017); OECD Insurance statistics.

Mexico has an under-developed welfare system. Pensions are low and there are few safety nets for those in work. Many rely on the informal economy for extra income.

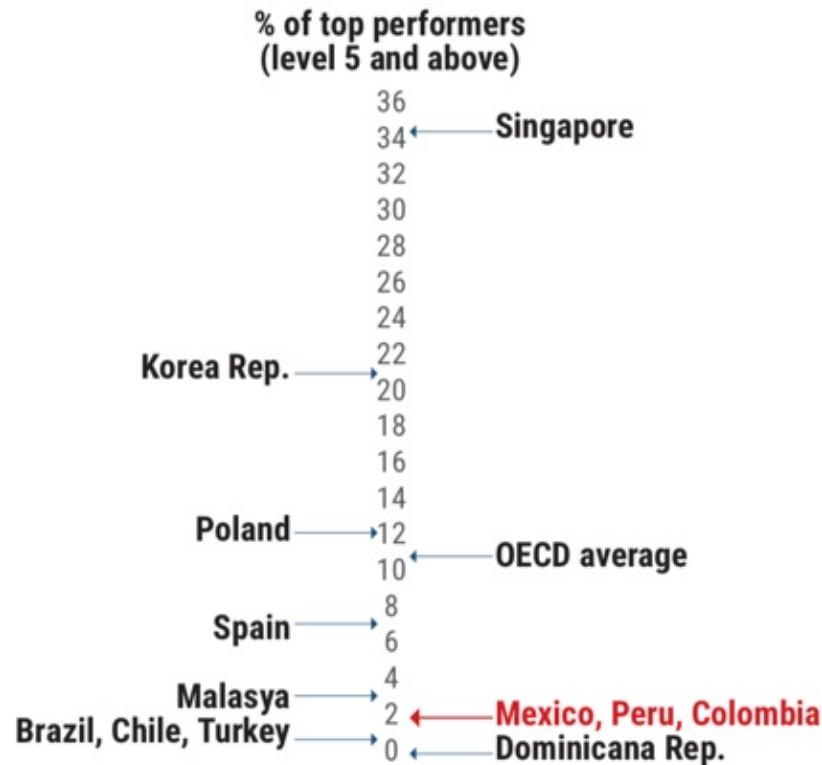
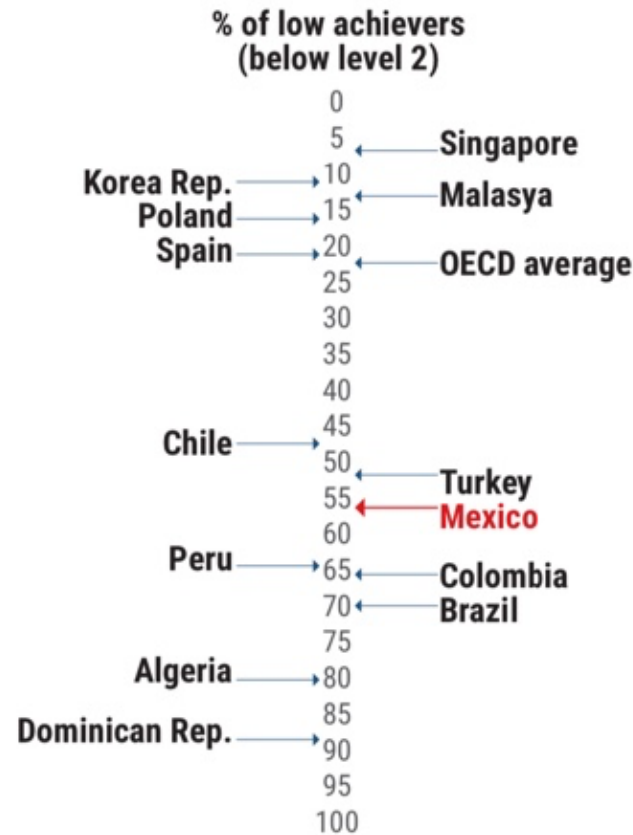
A. Social spending
% of GDP, 2017 or latest year available



Mexico has one of the highest Gini coefficients among leading countries. To what extent does a high level of disposable income inequality act as a barrier to growth?



Percentage of students in the bottom and top levels of performance in Maths, PISA 2015

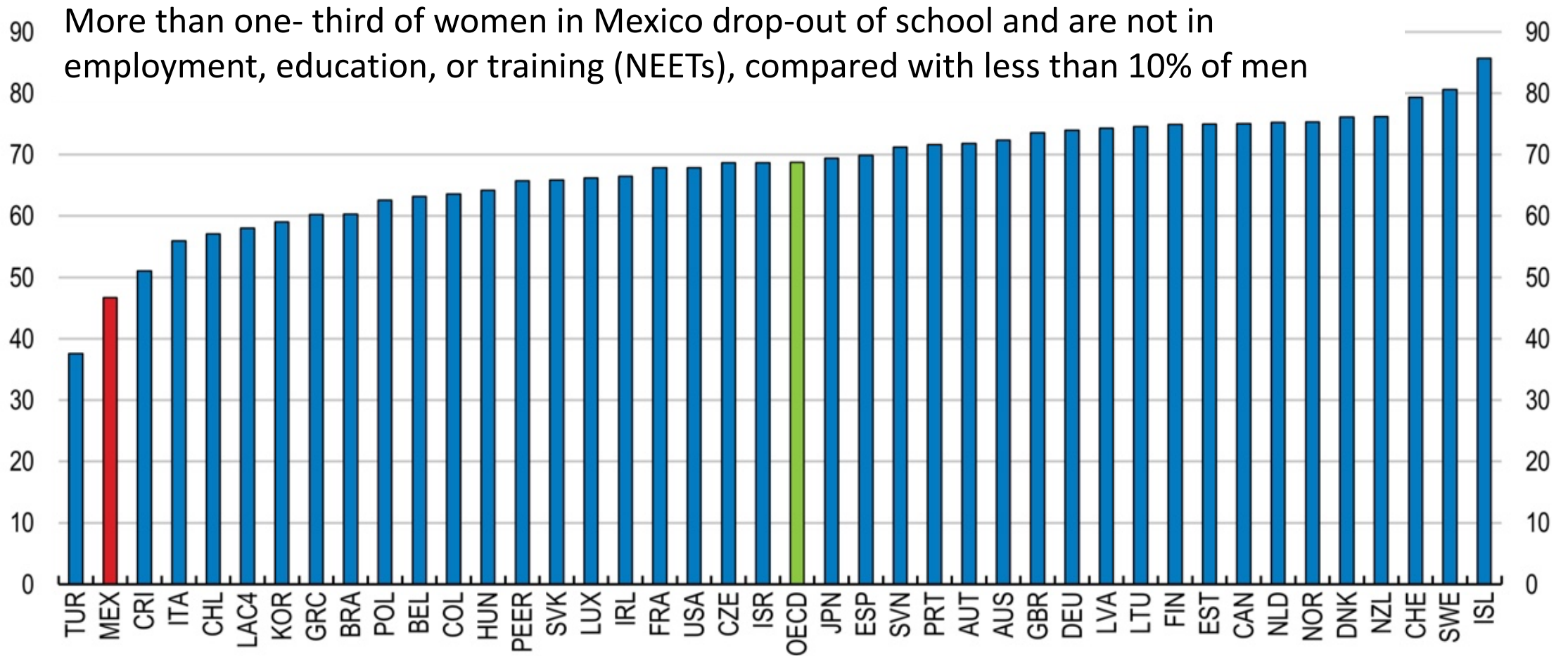


“Results from PISA 2015 show that only half of the 15-year olds in Mexico obtain the necessary skills to participate effectively and productively in society and in the labour market.”

(World Bank, 2019)

Figure 7. Female labour market participation is low

Percentage of 15-64 year olds, 2017





Economic reforms / growth
initiatives for Mexico

Examples of current growth policies for Mexico



Modernize road infrastructure and expand the train network



Improve urban infrastructure and expand / improve housing quality



Promote tourism and expand microcredit



Expand and unify healthcare and raise the minimum wage



Introduce guaranteed minimum prices for small producers of five agricultural products



Create a carbon emissions trading scheme to promote clean energy (alongside a carbon tax)

Using Mexico as applied context in your economics exams

- Can Mexico escape the “Middle Income Trap”?
- Evaluate the impact of large inflows of remittances
- Very low female labour market participation – examine the possible impact on economic growth
- Dual economy – Mexico’s large informal sector – consider why this is a structural barrier to growth
- Evaluate the benefits and drawbacks of Mexico operating with a floating exchange rate
- Mexico collects only 13 percent of GDP in tax revenues. Examine the impact of this for Mexico.
- Perceived corruption is the highest in the OECD – assess the impact on the Mexican economy
- High dependence on one economy - In 2018, the U.S. was the origin of 38% of FDI in Mexico and the source of 94 percent of remittances.



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