

MEXICO 2012: TRACKING DEMOCRACY IN A TIME OF UNCERTAINTY

May 2012

Mexico's Election and the Economy—Voters Face a Tough Decision

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Although security is commonly seen as the defining issue in Mexico's upcoming presidential election, the country's economic development ranks a close second in voters' minds. On July 1, despite the pervasiveness of the drug war in the political and social discourse, voters will make their decision based largely on the perceived successes and failures of 12 years of rule by the National Action Party (PAN). This is partly because the three main parties have currently presented minor differences in tackling the security problem and partly because the Mexican economy continues to show such a dramatically uneven development pattern. Of particular importance are continuing high levels of inequality manifested in Mexico's society, a direct result of an economic system that, despite its current vitality, still offers little opportunity for upward mobility for most citizens.

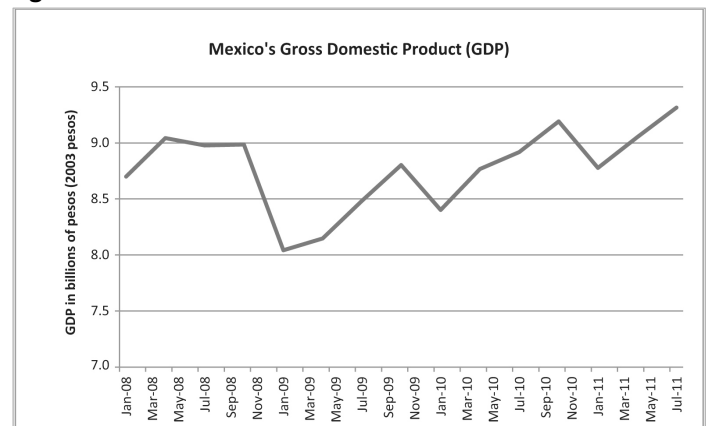
The Good News

From a foreign investment perspective, the Mexican economy appears inviting, with sustained economic growth, low inflation, a low reported unemployment rate, and strong government finances. The economic crisis faced by the Calderón administration in 2008–2009 hit the country hard, but a sustained recovery since has attracted substantial foreign direct investment, despite worries over public insecurity.

Viewed over the span of the past decade, Mexico's growth looks anemic beside the meteoric rise of China and, more recently, Brazil. But Mexico has developed an image among foreign investors as a country that seeks moderate but stable growth, rather than one prone to the boom and bust cycles that characterized past performance. While Mexico's economy suffered more than its Latin American counterparts during the recession of 2008–2009, when GDP declined 6.5 percent due to heavy dependence on exports to the United States, recovery also occurred thanks to these exports, as U.S. markets picked up again.

Since 2009 in fact, Mexico has seen the competitiveness of its exports improve in the U.S. market, because of rising wages and prices in China and surging costs of transpacific transportation. Mexico's currency has also moderately depreciated against the dollar, whereas China's yuan has appreciated. This has helped Mexico to boost its share of the U.S. import market, growing from 10.3 percent in 2008 to 12 percent today, with an overall export surge of 17.2 percent since 2010.¹ With the U.S. economy in recovery mode at the moment, this should boost Mexico's economic growth in the period leading up to the July elections.

Figure 1



Source: Instituto Nacional de Estadística y Geografía (INEGI).

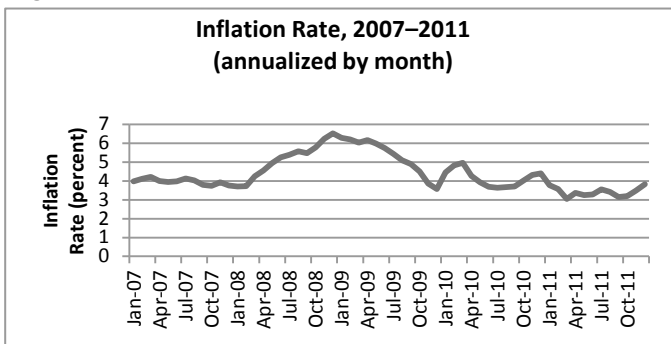
Not all of Mexico's advances in competitiveness and growth owe to external factors. Significant investment in infrastructure during the Calderón presidency, as well as bureaucratic streamlining, have dramatically improved Mexico's business environment. This is best showcased in the World Bank's annual *Doing Business* report, which consistently ranks Mexico as one of the best locations for

¹ Adam Thomson, "Mexico: Out of the shadows," *Emerging Markets*, <http://www.emergingmarkets.org/Article/2996973/Economics-and-Policy/MEXICO-Out-of-the-shadows.html#>.

operating a business in Latin America. The decision by auto manufacturers to invest there also reflects this. Since the beginning of 2010, the Mexican auto sector has received more than \$6.6 billion from such firms as Ford, Volkswagen, Chrysler-Fiat, Mazda, General Motors, and Nissan.

The record of the past 12 years on inflation has been even more impressive. From the skyrocketing prices of the mid-1990s (in 1995 inflation averaged 35 percent after the peso crisis), over a decade of conservative macroeconomic policy has brought Mexico an average inflation rate around 4 percent, similar to developed countries. Since 2007, Mexico has progressively lowered its inflation rate, despite a spike in consumer prices during the economic crisis in 2008–2009. Greater price stability has been a boon to the economy as it has encouraged investment, helped businesses plan for the future, and brought about more predictability in household budgets. Contrast this stability with other major Latin American economies. Mexico is a long way from the volatility seen in Argentina (22 percent inflation in 2010) or Venezuela (29.8 percent in 2010). Rather, it is on a similar level to such shining stars as Brazil, Colombia, and Chile.

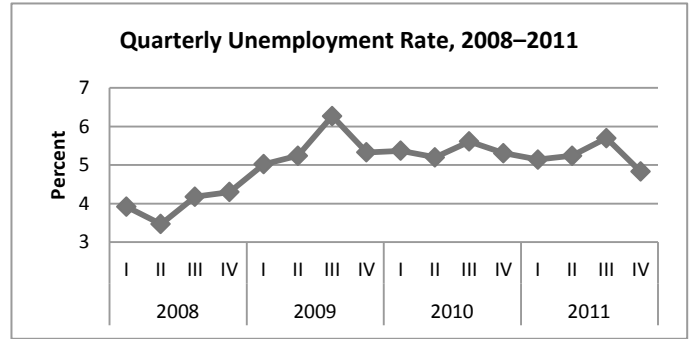
Figure 2



Source: Banco de Mexico.

Mexico’s unemployment rate is also low by developed country standards. Although the economic crisis impacted Mexican labor markets and put millions of Mexicans out of work, the reported unemployment rate of around 4.5 percent by the end of 2011 stands in stark contrast higher rates in Europe or the United States. Part of this reflects the dynamic nature of the economy, and part owes to how Mexican unemployment data is collected and reported. Even so, Mexicans continued to work throughout the crisis, although wages and working conditions were adversely affected.

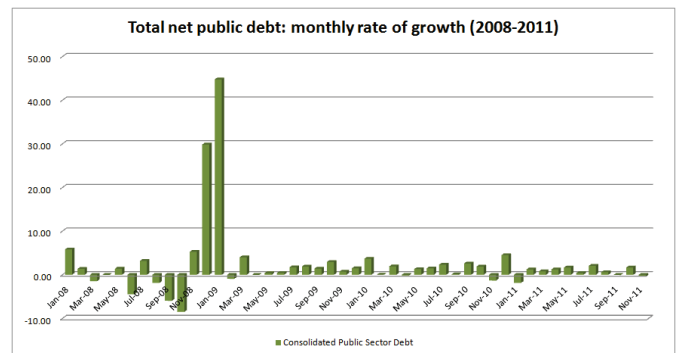
Figure 3



Source: Instituto Nacional de Estadística y Geografía (INEGI).

At the same time, the government maintained sound finances. Mexico steadily built up international reserves to almost \$150 billion by December 2011.² Mexico also maintained a sustainable fiscal balance, with the debt-to-GDP ratio remaining low by international standards. Mexico’s current debt-to-GDP ratio is estimated at a 37.5 percent, far below Brazil (54.4 percent), Colombia (45.6 percent), and Argentina (42.9 percent), and of course tiny compared to the United States (69.4 percent) or Canada (83.5 percent). Government deficits have been small as well by international comparison and are stable. In fact, Mexico’s economy is growing faster than its debt, an anomaly by international standards. Mexico has also had success placing international debt, denominated in both dollars and pesos. This includes a 100-year dollar-denominated bond issue in 2010, demonstrating the extraordinary confidence the market currently has in the country’s finances (only three countries in history have issued 100-year bonds).

Figure 4



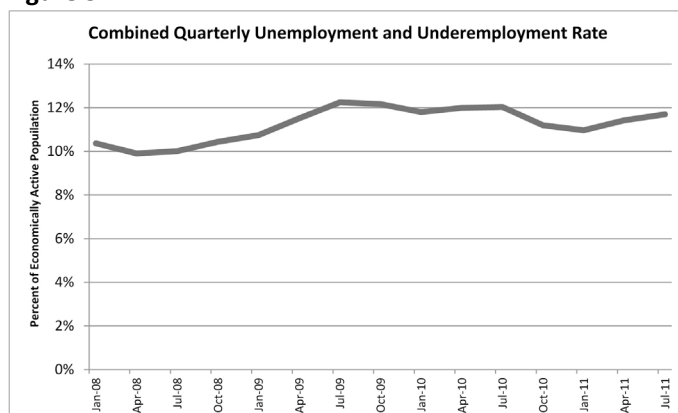
Source: Banco de Mexico.

² IMF, “Mexico: International Reserves and Foreign Currency Liquidity,” <http://www.imf.org/external/np/sta/ir/IRProcessWeb/data/mex/eng/curmex.htm>.

The Not-So-Good News

Despite these promising financial indicators, Mexico has a number of economic problems that could influence the election. The flip side of Mexico's positive unemployment picture is perhaps most important. Although only a small percentage of the workforce is officially unemployed, Mexico suffers from chronic *underemployment*. This means that people who are making less than they need to survive must either take on a second job or, more likely, supplement their income by working in the informal economy. The informal economy in Mexico is significant, representing almost 30 percent of national employment.³ According to official sources, when unemployment and underemployment are combined, a different picture emerges, with a figure that is closer to 12 percent.

Figure 5



Source: INEGI.

Along with this sobering consolidated employment figure, wages in Mexico remain depressed. In 2012, the national statistics agency, Instituto Nacional de Estadística y Geografía (INEGI), found that more than 35 percent of the Mexican labor force earned less than \$10/day. Further, 61.5 percent of workers earned less than \$14/day.⁴ This keeps large portions of the Mexican population in poverty, with little opportunity for upward mobility. The impact of the economic crisis exacerbated this problem, such that by the end of 2010, there were over 52 million people living in poverty in this country of 115 million, or 46.2 percent of the population, according to a study by El Consejo Nacional de Evaluación de la Política de Desarrollo Social (CONEVAL), a national evaluation agency. Even worse, over 11.7 million

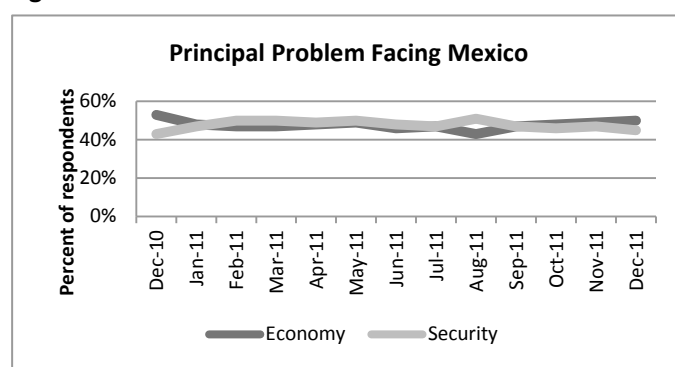
³ "Economía informal 'arropa' a mexicanos," CNNExpansion, <http://www.cnnexpansion.com/economia/2012/02/24/mexico-menos-desempleo-mas-informales>.

⁴ "Mexico's Informal Sector Holds Growing Lead in Job Creation," Mexidata.info, November 21, 2011, <http://mexidata.info/id3195.html>.

people, or about 10 percent of the population, were living in conditions of extreme poverty (earning less than \$2/day).⁵

This has led many Mexican voters to believe that the supposed "safe" handling of the economy by the PAN has done little to improve their economic situation. Opinion polls show that they are just as worried by the country's economic situation as they are by the problems of violence and insecurity. In fact, despite the high levels of violence and drug-related deaths in Mexico since the beginning of the Calderón administration, Mexicans continue to worry slightly more about their economic future than their personal security.

Figure 6



Source: Consulta Mitofsky, "Así Van...: Elección Presidencial 2012 en México," February 2012 (reproduced with permission).

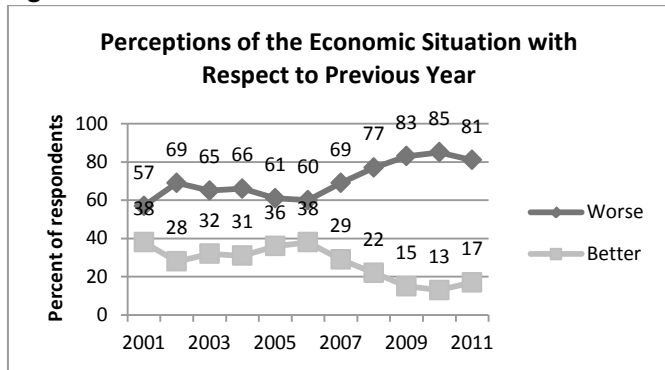
And when the level of optimism about the economic future of the country is examined in greater depth, the picture does not improve. Mexicans consistently believe that their economic situation is worse than it was a year ago, and that the situation will not improve in the coming 12 months. To make matters worse for the Calderón administration, these numbers have deteriorated since 2006. It is perhaps these figures, more than any other, that help to explain the problems currently facing the PAN as it tries to garner votes in the run-up to the July general election.

One could consider these numbers—for wages, unemployment, and pessimistic perceptions of the economy—alongside the fact that the world's richest man, Carlos Slim, is Mexican, yet the Organization for Economic Co-operation and Development (OECD), put Mexico's GINI

⁵ Mayoral Jimenez, Isabel, "La pobreza en México sube a 52 millones," CNNExpansion, July 29, 2011, <http://www.cnnexpansion.com/economia/2011/07/29/pobreza-mexico-2010>.

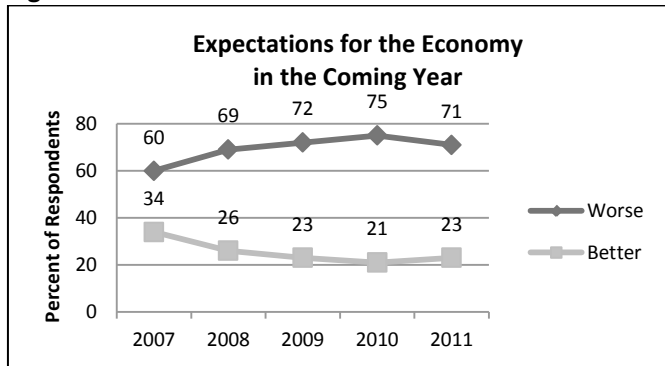
coefficient at 0.48, higher than any other OECD member country except Chile.⁶

Figure 7



Source: Consulta Mitofsky, “Así Van...” (reproduced with permission).

Figure 8



Source: Consulta Mitofsky, “Así Van...” (reproduced with permission).

Conclusions

The choice facing Mexican voters is far from simple. One option is a ruling party—the PAN—that has adroitly managed the overall economy for 12 years, but so far has done little to translate that into broadly shared prosperity. Alternatively, they could vote for a left-wing party—the Party of the Democratic Revolution (PRD)—that touts an income redistribution scheme and a more generous welfare state, but which has been torn internally and is led by a polemical figure (Andrés Manuel López Obrador) commonly portrayed as an outlier. The final option for the electorate is to return to the Institutional Revolutionary Party (PRI), the party that ruled Mexico for most of the

twentieth century, provided a basic standard of living for loyalists, but was responsible for corruption scandals and periodic financial meltdowns that weakened the country. One thing is for certain—Mexican voters will be doing some soul searching as they mark their ballots in July.

Duncan Wood is a nonresident senior associate of the Americas Program at the Center for Strategic and International Studies in Washington, D.C. To follow the Mexico 2012 project, please visit the project’s homepage at <http://csis.org/program/mexico-2012-tracking-democracy-time-uncertainty>.

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⁶ OECD, “Society at a Glance 2011—OECD Social Indicators,” http://www.oecd.org/document/24/0,3746,en_2649_37419_2671576_1_1_1_37419,00.html#data.