MEXICO'S AGENDA FOR ECONOMIC REFORM

CAN THE OBSTACLES BE OVERCOME?

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Why does Mexico only achieve average economic growth when its geographical location and substantial reserves of raw materials make it ideally placed to have a strong economy? This is a question that has been raised many times over the years during discussions on the course the country has adopted in its foreign economic relations and on the lack of dynamism in its domestic economy. Although Mexico has always complained that it is not classified among the BRICS nations, only achieved an average growth rate of 1.55 per cent under President Vicente Fox (2000-2006) and 1.53 per cent under President Felipe Calderón (2006-2012) – significantly lower than the growth levels seen in the BRICS grouping (6 to 7 per cent). Nor was Mexico on the list of emerging economies published by the World Bank in 2011, which included Brazil, China, India, Indonesia, Korea and Russia. By 2025, these countries are expected to provide half of all economic growth worldwide.

One of the main reasons for this is the impact of trying to integrate into the global market. A lack of technological innovation is hindering the country's progress.[1] However, the perceived lack of dynamism in the country's economy above and beyond the current poor growth levels is not just a consequence of Mexico's dependence on what is happening in the neighbouring U.S. market. A large portion of the blame also lies with a number of structural obstacles that need to be urgently addressed. A proposed programme of long-overdue reforms aimed at overcoming the existing

1 | Cf. World Bank, *Multipolarity: The New Global Economy*, Washington D.C., 2011, 20.

stagnation in the economy highlights eight potential areas for reform at both macro- and micro-economic level: tax reform, reform of the social security system, reform of political institutions, reform of labour law, educational reform, reform of the country's telecommunications, reform of competition law and energy reform.[2] Some of these necessary reforms overlap in places, especially when it comes to those industries that are based on networked supply, such as telecommunications, gas and oil. There has been progress in some areas, such as in competition law with the introduction of the Ley Federal de Competencia Económica in 2011, or the still somewhat superficial changes made to the energy industry in 2008. However, many initiatives have failed to get off the ground due to opposition from PRI and PRD that were not willing to reach an agreement with the government.

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When the government of President Enrique Peña Nieto takes up the reins of power on 1 December 2012, Mexico will once again be at the dawn of a new era that is viewed as a watershed by many observers. After 12 years of rule by the conservative Partido Acción Nacional (PAN), the former "state party" Partido de la Revolución Institucional (PRI), will once again have a representative in the presidential office: Enrique Peña Nieto.[3] One of the key objectives for the PRI should be to bolster the country's economy through more foreign direct investment in order to make the country a more attractive proposition, despite its precarious security situation. The new president has made it clear that he wants to see Mexico assume a leading role in global affairs and acquire the status of an emerging power.[4] This should help to make up for the country's weak economic growth and to consolidate its ties with the new centres of global economic development. China is considered particularly important as part of an overall strategy of diversification. This strategic approach opens up new possibilities for

2 | Cf. Centro de Estudios Espinosa Yglesias, "El México del 2012. Reformas a la Hacienda Pública y al Sistema de Protección Social", Mexico City, 2012, 12.
3 | Cf. Günther Maihold, "Auf der Schmalspur zur Macht: Die PRI kehrt in das Präsidentenamt von Mexiko zurück", *Giga-Focus Lateinamerika*, No. 7/2012, 8.
4 | Cf. Enrique Peña Nieto, "Recuperar el liderazgo de México en el mundo", *El Universal*, 25 Jun 2012, http://eluniversal.com.mx/nacion/197848.html (accessed 8 Oct 2012).

the country internationally, but the country's success will depend upon its ability to overcome obstacles to reform and modernise its own production capabilities so that it becomes competitive to the point where its growth potential can be fully realised and technical innovation advanced.

With the inauguration of Enrique Peña Nieto on 1 December 2012, Mexico will once again experience a change of government. | Source: Angélica Rivera de Peña (CC BY-SA).

OVERCOMING OBSTACLES TO REFORM

There is no shortage of well-meaning advice in this respect. According to the OECD,[5] Mexico needs to find a way to improve its low levels of productivity, something that will only be achieved with fundamental and far-reaching reforms. Its recommendations include taking all necessary measures to improve education and training, reforming restrictive labour laws, increasing competition within the telecommunications and electricity supply sectors, removing obstacles to direct foreign investment, strengthening the legal system, increasing the competitiveness of the domestic economy and increasing government revenues. Included in this list of tasks that the OECD has dropped in President Enrique Peña Nieto's in-tray are a number of

5 | OCDE, "México. Mejores políticas para un desarrollo incluyente", Paris, 2012, 5.

long-overdue political decisions that have until now been shied away from by both the political elite and the political parties in Mexico. In the past, this reluctance was not just due to a lack of will on the part of politicians of all parties, but also to huge opposition from business, the unions, and the *poderes fácticos* (those effectively wielding the power) in the media and society in general. So far, there has been no sign of the emergence of the kind of broad alliance for reform that is needed, so the Peña Nieto government will have to rely on ad hoc coalitions in order to push through its reform programme.

As Felipe Calderón's time as president comes to an end, the prevailing circumstances in the country will also tend to limit the new government's room for manoeuvre. In spite of enjoying relative stability at a macroeconomic level in these times of financial crisis, Mexico is currently suffering a period of weak growth compared to other emerging nations such as Brazil. While it was able to quickly recover from the massive recession in 2009 triggered by the financial crisis in the USA, Mexico still lacks the necessary impetus for growth. Its reliance on business cycles in the USA means that it may have to wait some time before this situation changes. Mexico is the second-largest economy in Latin America, but the question remains as to how the country's domestic economy can be used to kick-start its own economic development so that it is not forever dependent on another economic power and the success of that other country's economy.

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CAN SELF-SUSTAINABLE GROWTH SUCCEED?

Mexico's economic development has been inextricably bound up with economic crises that have led to severe economic upheavals both inside and outside the country. These include the crises of 1976, 1982 and 1994/1995 – moments when the vulnerability of the country's economy became only too obvious.[6] Mexico's inability to service its debt after the massive devaluation of the peso in 1995 heralded the beginning of a period of financial support by the USA, something that would have been difficult to imagine

6 | Cf. Ana Covarrubias Velasco, "México: Crisis y política exterior", *Foro Internacional*, Vol. 36/1996, 477-497.

without the country's substantial oil reserves and its participation in the North American Free Trade Agreement (NAFTA). This trade agreement with the USA and Canada, which came into force in 1994, provided the springboard for the USA and the International Monetary Fund (IMF) to launch a programme of financial assistance. This was seen by many as a distortion of the narrow framework of cooperation implied by the Free Trade Agreement and was commonly referred to by commentators as NAFTAplus, something which the USA has always denied.[7] The *tesobonos* (a type of debt instrument indexed to the U.S. dollar) issued by the Salinas de Gortari government (1988-1994) also made it necessary for the IMF to make available a standby credit of 50 billion U.S. dollars, of which 20 billion was provided by the USA. Mexico pledged its future oil revenues as collateral and paid them into an account at the U.S. Federal Reserve:[8] a decision, which clearly ran counter to the traditional principle of national sovereignty in this sector. This decision by the Zedillo government (1994-2000), which was soon in a position to pay off these loans, showed to what extent Mexico's oil revenues made it vulnerable but also "rescueable", at least as far as the rules of the international financial organisations are concerned.

The North American Free Trade Agreement provided the springboard for the USA and the IMF to launch a programme of financial assistance.

In the wake of the crisis, Mexico clearly reverted its policy of safeguarding national sovereignty and attempting to diversify its trading partners (including signing a free trade agreement with the EU in 2000 and expanding its contacts within the Pacific region). This is typical of the country's traditional approach to foreign trade where it seeks security in a legalistic understanding of foreign policy based on the principle of non-intervention and self-determination.[9] However, Mexico's participation in the North American free trade zone has altered the basis of the country's position in the world. The former foreign minister, Jorge Castañeda, suggested that Mexico should not give up on the idea of diversifying its foreign policy by forging links with other regions of the world, whether it be Latin America or Europe,

7 | Cf. Nora Lustig, "The United States to the rescue: financial assistance to Mexico in 1982 and 1995", *Cepal Review*, Vol. 61, 04/1997, 41-62.
8 | Cf. Ángeles Cornejo, "Intervención del Estado en la industria petrolera", Mexico City, 2001, 99 et sqq.
9 | Cf. Ana Covarrubias, "La política exterior 'activa'… una vez más", *Foro Internacional*, Vol. 48/2008, 13-34 (17).

but that it had to face up to the realities of its relationship with the USA: "There is no possibility of balancing out what I have described as a strategic relationship with the USA by forging relations with another country or group of countries in the world; the basic economic and social data for our country make it clear that we are simply not in that position. However, these figures might be sufficient to act as a counterweight or a balance in this multilateral and regional orientation in the form of the construction of an international system built on basic rules."[10]

If, in a strategic sense, Mexico is diagnosed as having a structural dependence on the USA that can only be counterbalanced by developing strong multilateral ties,[11] then this is the equivalent of saying that, in an economic sense, both economies are somehow linked in a kind of cyclical synchronisation.[12] Even if the relationship varies regionally depending upon the level of involvement within the NAFTA alliance,[13] this still clearly limits the possibilities for the country to act in a counter-cyclical way. In contrast to the crisis of 1994/1995, Mexico is now in much less of a position to rely on its oil reserves, as additional revenues are unlikely to be achieved in the short-term in light of declining extraction rates and lack of prospecting and exploration.[14] If oil cannot be relied upon as a means of combating a crisis, then it must be assumed that, in terms of the symbiotic relationship between Mexico and the USA

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10 | Cf. Jorge G. Castañeda, "Política exterior en México", Conferencia Magistral del Secretario de RR.EE. en la Universidad Autónoma de Tamaulipas, Cd. Victoria, Tamps., 1 Feb 2002, Discursos del Secretario de Relaciones Exteriores, Jorge Castañeda (01-06/2002), Mexico City, SRE 2002, 25.

11 | Also Humberto Garza Elizondo, "Crisis de la política exterior mexicana", *Foro Internacional*, Vol. 38/1998, 177-202 (186).

12 | Cf. Pablo Mejía Reyes and Jeanett Campos Chávez, "Are the Mexican States and the United States Business Cycles Synchronized? Evidence from the Manufacturing Production", Economía Mexicana, *Nueva Época*, Vol. 20/2011, 79-112.

13 | Cf. Marcelo Delajara, "Sincronización entre los Ciclos Económicos de México y Estados Unidos. Nuevos Resultados con Base en el Análisis de los Índices Coincidentes Regionales de México", Banco de México, Mexico City, 2012.

14 | Cf. Günther Maihold, "Mexiko: Bilaterale Einbindung und multilaterale Handlungsoptionen einer Ölmacht", in: Enno Harks and Friedemann Müller (eds.), *Petrostaaten. Außenpolitik im Zeichen von Öl*, Baden-Baden, 2007 (*Internationale Politik und Sicherheit*, Vol. 60), 171-195.

within the framework of the NAFTA alliance, the theory that is often cited in Latin America of a decoupling of the economies from the region from the waves of crisis in the USA does not really apply in the case of Mexico. The country's strength as a subcontractor to the U.S. market has a negative effect in the long run: while it may be quick to profit from an economic upturn and increased consumer demand in the USA, it is just as directly affected by recessionary trends. Because 75 per cent of Mexico's foreign trade is with the USA, its dependence on U.S. markets is clear for all to see in the country's economic data. Until recently it has always been assumed that a change in economic growth in the USA of one per cent, irrespective of whether it is up or down, has a corresponding effect of 0.6 per cent in Mexico, but now recent estimates suggest it is likely to be only 0.2 per cent. The impact of this kind of change is likely to vary in seriousness depending on the region or sector.[15] The impact on the automotive and automotive parts industries, for example, is much more serious than for other sectors. Although Mexico only accounts for 1.6 per cent of global GDP, its share of total foreign trade amounts to more than 2 per cent, a figure that the OECD believes could potentially still grow significantly.[16] However, the country's economic growth is suffering from a phenomenon caused by the financial crisis: in contrast to the OECD average, the share of GDP provided by services in Mexico is actually declining. It fell from 68 per cent in the year 2000 to 61 per cent in 2010, clear evidence that the country is making little real progress in its efforts to modernise its production structures.[17]

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Mexico's annual economic growth for the decade from 1990 to 2000 was 3.1 per cent on average, but this fell to 2.1 per cent over the next 10 years, not least because of the massive slump to -6.1 per cent in 2009. There was renewed growth of 5.4 per cent in 2010 and 4.5 per cent in 2011. The World Bank is forecasting growth of 3.6 per cent for the

15 | Cf. Victor Manuel Juárez Neri, "Globalización económica en México. Efectos sociales y territoriales", http://www.ucm.es/info/ec/jec10/ponencias/810Juarez.pdf (accessed 8 Oct 2012).
16 | Cf. Perspectivas OCDE, "México. Reformas para el cambio", Paris, 2012, 11.
17 | Ibid., 13.

years 2010 to 2014.[18] However, this figure is significantly lower than that required to create additional employment. In terms of macroeconomic data, the Calderón government made great efforts to keep things stable. Inflation, for example, stayed relatively stable, ranging from 3.6 per cent in 2006 to 5.3 per cent in 2009, and has now dropped back to 3.4 per cent (2011). During this time, Mexico was also able to significantly increase its foreign exchange reserves from 76.7 billion U.S. dollars to 165 billion U.S. dollars in 2012.[19] Even though remittances home by Mexican citizens only accounted for 2.1 per cent of Mexico's GDP, there was still a significant drop in this area as a result of the financial crisis in the USA. The 26 billion U.S. dollars received in 2007, the highest amount ever recorded, could not be maintained, and in the crisis year of 2009 remittances dropped by 15.5 per cent to 21.2 billion U.S. dollars. Since then they have stabilised at around 22 billion U.S. dollars.[20]

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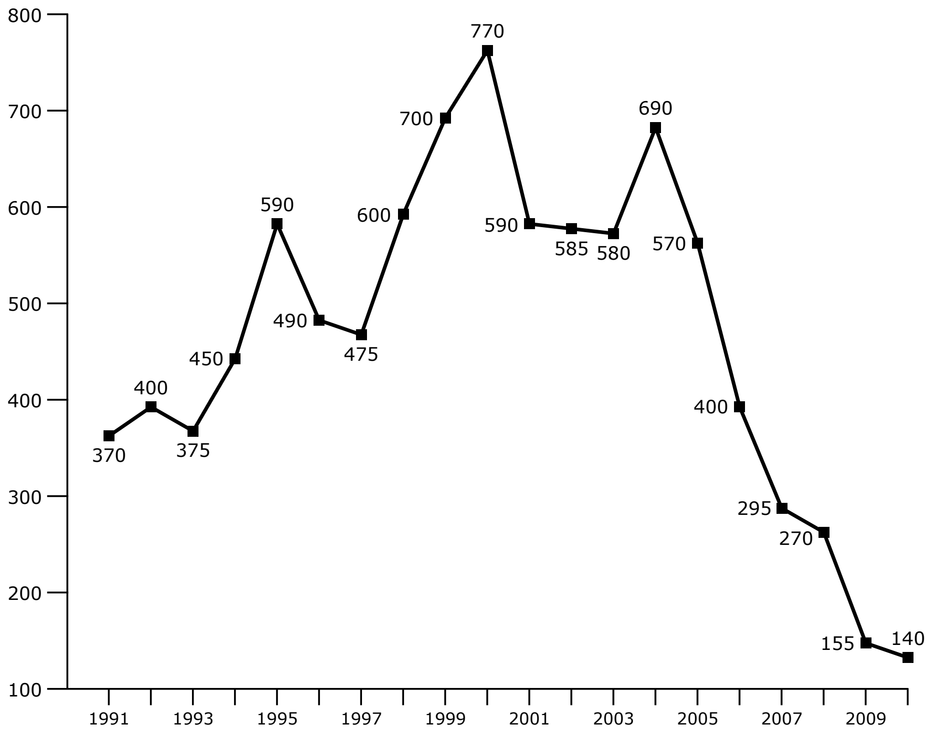
The crisis in the USA also brought about a significant reduction in the amount of direct investment into Mexico, which fell from 27.3 billion U.S. dollars in 2008 to 16.3 billion U.S. dollars in 2009, before climbing again to 20.8 billion U.S. dollars in 2010 and 20.3 billion U.S. dollars in 2011.[21] A breakdown of these investments by country of origin very clearly explains the reasons for the slump in 2009, as 48.5 per cent came from the USA, followed by the Netherlands with 32.5 per cent, Spain with 14.4 per cent, Germany with 4.6 per cent and 1.0 per cent from other countries.[22] Mexico's claim to be a leading player on the world stage is backed up by its

18 | Cf. World Bank, "Mexico at a Glance", http://devdata.worldbank.org/AAG/mex_aag.pdf (accessed 8 Oct 2012).
19 | Cf. Banco de México, "Reporte sobre las Reservas Internacionales y la Liquidez en Moneda Extranjera", http://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CF456&sector=4&locale=es (accessed 8 Oct 2012).
20 | Cf. Jesús Cervantes, "Comportamiento reciente del ingreso de México por remesas familiares", CEMLA, Mexico City, 2012, 3.
21 | Cf. Secretaría de Economía, "Estadística oficial de los flujos de IED hacia México", http://www.economia.gob.mx/comunidad-negocios/inversion-extranjera-directa/estadistica-oficial-de-ied-en-mexico (accessed 8 Oct 2012).
22 | Cf. ProMéxico, "Cambios de la inversión extranjera directa en México", http://www.promexico.gob.mx/inversion-extranjera (accessed 8 Oct 2012).

position in terms of international trade. Measured according to GDP, Mexico was 11th on the list of the world's largest economies with 768,672 million U.S. dollars in 2005, making it the second-largest economy in Latin America after Brazil (8th). Mexico's foreign debt amounted to 138 billion U.S. dollars in 2004, of which 129 billion was long-term debt.[23] In recent years, the Mexican government has succeeded in maintaining Mexico's image as the "poster boy" of the international finance organisations, in as much as it has been able to keep its macroeconomic data under control: for example, foreign debt stands at 5.4 per cent of GDP.

Fig. 1

Annual migration from Mexico to the USA 1991-2010 (in thousands)



Source: Pew Research Center.

23 | Cf. World Bank, "Global Development Finance 2006. The Development Potential of Surging Capital Flows. II. Summary and Country Tables", Washington D.C., 2006, 267.

Even more significant for the country were the changes in the flow of migrants to the USA: their numbers reduced substantially as a result of the financial crisis. The demand for construction workers in the USA has reduced significantly since the beginning of the property crisis. Illegal immigrant workers in particular have been subjected to much more rigorous deportation practices on the part of the U.S. authorities. In the 2011 fiscal year, a record 396,906 people were sent back to Mexico.[24] The strict anti-immigration laws passed in certain U.S. border states (led by Arizona) were eventually watered down by the U.S. Supreme Court. Nevertheless, the somewhat dubious concept of "self-deportation" as a goal of migration policy forms an integral part of the election manifesto of Republican presidential candidate Mitt Romney. This effectively amounts to putting so much pressure on Mexican immigrants that they will eventually "voluntarily" return to their country of birth.

MEXICO'S POLICY ON INTERNATIONAL TRADE: MOVING FROM PASSIVE TO ACTIVE COMPETITIVENESS

Mexico's relations with its northern neighbours within the NAFTA alliance are very much influenced by a desire for more international integration. The NAFTA agreement is aimed at stimulating a process of modernisation that is designed to give a boost to the country's economic competitiveness and technological innovation, with companies relocating to the north of Mexico and being given preferential access to markets in the USA. This has so far only been partially successful. The result has been a socio-economic and territorial polarisation of the Mexican economy due to the lack of a focused strategy to actively promote the integration of the Mexican economy within the alliance. Businesses generally assumed that market forces would open the way to this kind of integration. However, the small- and medium-sized enterprises that dominate the country's economy have experienced great difficulty in making this a reality as it proved impossible to create value chains between the various sectors of the economy, both at regional level and within individual sectors.[25]

24 | Cf. the relevant statistics of the U.S. Immigration and Customs Enforcement Office: http://www.ice.gov/removal-statistics (accessed 8 Oct 2012).

25 | Cf. Enrique Dussel Peters, *Polarizing Mexico. The Impact of Liberalization Strategy*, Boulder, 2000.

By 2010, most of the NAFTA agreement provisions aimed at promoting free trade had been put into practice. This means that the original objectives of the agreement have largely been met, so the question is whether any additional benefits can now be generated from this three-way relationship. This search for more innovative approaches is to a certain extent being met by what are known as NAFTA Plus and Post-NAFTA. The Mexican economy was split between a modern section that was fully integrated into the global economy (such as the the "multilatinas" CEMEX, TELMEX and Corona and the maquila and automotive industries that were predominantly focused on U.S. markets) and another section far-removed from this made up of small- and medium-sized enterprises that were less integrated and so lacking in real competitiveness. Because of this split, proposals about creating some form of additional cooperation between Canada, Mexico and the USA that had previously been floated once again gained attention.[26] The question is not only how to successfully integrate both parts of the economy in such a way that this would provide the necessary stimulus for making the Mexican economy more competitive, in addition to the wage differential that exists between Mexico and the USA. The question is also how to consolidate the economic community in North America beyond the Free Trade Agreement in areas such as energy supplies and guaranteeing security and stability. The idea of a NAFTA-plus, which was first put forward in 2000 by President Fox, was aimed at addressing the topic of migration, an issue that continues to remain of utmost importance to Mexico and has been a sore point with the USA for decades.[27] However, since the 9/11 terrorist attacks, there has been much less room for manoeuvre in this area, as U.S. domestic policy has been increasingly focused on border security.

The idea of a NAFTAplus was aimed at addressing the topic of migration, an issue that continues to remain of utmost importance to Mexico and that has been a sore point with the USA for decades.

26 | Cf. Günther Maihold, "Die USA und Mexiko zwischen NAFTA-Partnerschaft und Zweckgemeinschaft", *Aus Politik und Zeitgeschichte* (supplement of the weekly paper *Das Parlament*), No. 40/2011, 4 Oct 2011, 16-22.

27 | Cf. Günther Maihold, "Auf dem Weg zum 'anderen' Mexiko: Eine Bilanz der Amtszeit von Vicente Fox", in: Peter Birle (ed.), *Lateinamerika im Wandel*, Baden-Baden, Nomos Verlag, 2010, 139-164.

The Security and Prosperity Partnership of North America (SPP), signed in 2005 by the heads of government or presidents of the NAFTA alliance members, further expanded the areas of potential cooperation between the three countries. Various working groups were to look at issues such as transport, energy, the environment and financial services and come up with concrete proposals. However, by 2009 this initiative had already been put on the back burner. Once again it was clear that the USA, and also Canada, were not sufficiently interested in signing agreements that went beyond the Free Trade Agreement or in pursuing the aim of creating a North American community along the lines of the European integration process.[28]

It would appear that, for the USA and Canada, cooperation models which consider the trilateral framework of NAFTA to be sufficient are much more attractive, because it allows them to sign as many bilateral agreements as they wish under that umbrella. This kind of issue- and policy-based approach has the benefit of sparing the member states the necessity of pursuing three-way negotiations and satisfies the USA's preference for bilateralism. This is especially true when it comes to immigration policy. Canada has little interest in negotiating jointly with Mexico, as it runs the risk of ruining its preferential position when it comes to its citizens having access to the U.S. job market. Business representatives in particular have sidelined the idea of a NAFTAplus agreement and stressed that they are more interested in the creation of bilateral relations in a post-NAFTA 21st century.[29] They would especially like to see a simplification of border control measures for freight traffic, with the goal of creating a "model border by global standards". They argue that customs clearance at the border should be organised in such a way that company supply chains experience no delays or losses due to tailbacks

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28 | The seminal work on this is Robert A. Pastor, *Toward a North American Community: lessons from the old world for the new*, Washington D.C., 2001; and more recently idem *The North American Idea. A Vision of a Continental Future*, Oxford, 2011.

29 | Cf. American Chamber Mexico / U.S. Chamber of Commerce, "Steps to a 21st Century U.S.-Mexico Border. A U.S. Chamber of Commerce Border Report", http://uschamber.com/sites/default/files/reports/mexicoreportfullbook.pdf (accessed 8 Oct 2012).

or long-winded procedures. U.S. exports to Mexico alone have gone up from 28 billion U.S. dollars in 1990 to 163 billion U.S. dollars in 2010, and further dynamic growth is also expected from the cross-border contract processing (*maquila*) industries, not to mention the import of seasonal consumer goods such as fruit and vegetables. Thus, an expansion of existing networks of cooperation is urgently needed.

If the economic and social relationships within the NAFTA zone do not develop beyond the level of free trade that has already been reached and end up being little more than a neighbourhood policy, then Mexico's hopes of a much deeper partnership will be frustrated in the long run. Currently, trade within North America accounts for 36 per cent of total trade in the region, with a general downward trend since 2001. In this respect, Mexico's ties to its northern neighbours has actually reduced the country's options in terms of its own policies and development – the opposite of what they hoped to achieve by signing onto NAFTA. Because of the preferences shown by Mexico's northern neighbours, it is clear that a new concept for the idea of North America is now urgently needed.

At the same time, Mexico is also seeking to ensure that it does not miss out on the dynamic economic developments in the Pacific region.[30] In contrast to many South American countries, Mexico has to contend with competition from China in the U.S. market. It faces direct competition in the U.S. in relation to 10 key products that account for 85.7 per cent of Mexico's foreign trade and 52.7 per cent of China's.[31] In 2004, China supplanted Mexico as the USA's second biggest trading partner. Beijing has since been able to consolidate this position, especially in the area of contract processing. Despite the fact that customs tariffs are twice as high and wages are increasing in China, Chinese textiles represent serious competition to similar products from Mexico, because labour costs in China are still only a fifth of those in Mexico. Mexico imports great

Labour costs in China are still only a fifth of those in Mexico. In 2004, China supplanted Mexico as the USA's second biggest trading partner.

30 | Cf. Jörg Husar, *Chinas Engagement in Lateinamerika. Rohstoffbedarf, Versorgungssicherheit und Investitionen*, Verlag für Entwicklungspolitik, Saarbrücken, 2007.

31 | Cf. Enrique Dussel Peters, *Implications of China's Recent Economic Performance for Mexico*, Bonn, 2005, 5 et seq.

quantities of electronic products and automotive parts from China for use in the manufacture of motor vehicles for the U.S. market. As a result, Mexico is not in a position to balance its trade deficit of over 40 billion U.S. dollars (2010) with China.

It also seems unlikely that they will be able to balance this trade deficit in the near future. For the same reason, negotiations on a free trade agreement between the two countries have stalled for years. Mexico is afraid that its own market will be flooded with cheap goods from China, which could further damage its small businesses and result in widespread job losses. For this reason, Mexico's business leaders are also split on how the country's relations with China should progress in the future, despite the fact that China remains the country's second most important trading partner.[32] In light of China's limited investment in Mexico and its excessive trading agenda, the question of broader bilateral relations appears to have been put very much on the back burner,[33] so much so that foreign policy advisors to the new president Enrique Peña Nieto regard re-building relations with China as key. They want to see a new beginning with more emphasis placed on the positive aspects of a relationship with such a competitor, rather than any potential negative consequences.[34] Not only that, in the Asia region (Japan and South Korea as well as parts of China), Mexico can see potential models for its own programmes of technological change that could help it to overcome its economic stagnation and find a new place for itself in the global community.[35]

32 | Cf. Enrique Dussel Peters, "La manufactura en México: condiciones y propuestas para el corto, mediano y largo plazos", in: José Luis Calva (ed.), *Nueva estrategia de industrialización*, Mexico City, 2012, 79-115 (105).

33 | Cf. Enrique Dussel Peters, "Hacia una agenda bilateral de México y China", in: Calva (ed.), n. 32, 152-165.

34 | Cf. Emilio Lozoya Austin and Jorge Montaño Martínez, "Una visión de México para el futuro", *Foreign Affairs Latinoamericana*, Vol. 12, No. 2/2012, 43-51 (49).

35 | José Luis Manríquez, "México en el espejo del Este Asiático: Cambio tecnológico, desarrollo económico e inserción en el mundo", in: Guadalupe González and Olga Pellicer (eds.), *Los retos internacionales de México. Urgencia de una mirada nueva*, Mexico City, 145-175.

THE FISCAL ASPECT OF WEAK ECONOMIC GROWTH: LONG-OVERDUE TAX REFORMS

The success of President Felipe Calderón's government in maintaining macroeconomic stability in Mexico during difficult times stems from its effective budgetary policy. However, this positive assessment should not blind us to the fact that budgetary policy is in a state of structural crisis resulting from the Mexican state's heavy reliance on oil revenues and its poor record on tax collection. The main problem is that fluctuations in the price of oil have a direct impact on the budget. This problem for Mexican budgetary policy is often referred to as a kind of "fiscal Dutch disease",[36] and not without good reason, as it has systematically alleviated the pressure on the Mexican state to pursue effective policies on tax and tax collection. From 1990 to 2009, 30 per cent of state revenues came from the oil business and 40 per cent from taxes.[37] According to the OECD, taxes normally account for 70 per cent of a country's revenues on average. Income tax accounts for around 50 per cent of the country's total tax revenues and VAT for around 35 per cent. The result is that VAT in 2010 amounted to the equivalent of 3.78 per cent of GDP (OECD average: 6.6 per cent). The growing informality of the Mexican economy means that this source of tax revenue is declining in size as many businesses simply avoid paying VAT. Income tax revenue in Mexico is the equivalent of 5.2 per cent of GDP, compared to an OECD average of 16.7 per cent.

From 1990 to 2009, 30 per cent of state revenues came from the oil business and 40 per cent from taxes. According to the OECD, taxes normally account for 70 per cent of a country's revenues on average.

What this tells us is that the fiscal foundations of Mexico's economy are very weak. When it comes to income tax, only 19 million of 40 million employed people actually pay their taxes. According to calculations by SAT, Mexico's tax authority, tax avoidance or evasion for both major sources of tax revenue equates to around five per cent of GDP, an amount that is approximately three per cent higher than all of the country's social expenditure.[38]

36 | Cf. Centro de Estudios Espinosa Yglesias, *El México del 2012. Reformas a la Hacienda Pública y al sistema de protección social*, Mexico City, 2012, 30.
37 | Remainder: para-governmental companies, non-tributary income. Cf. ibid, 84.
38 | See ibid, 109.

The weaknesses of Mexico's tax system also reflect the country's inability to create a fair redistribution of wealth based on a progressive tax policy. The Mexican state is therefore forced to adopt a procyclical spending policy because in times of recession it has to compensate for lack of revenue. This means that the much-needed impetus for growth is simply not there.

Variable rates of VAT depending on the type of goods involved mean that so far it has been almost impossible to expand the tax base by means of preliminary political decisions. Added to this are subsidies on petrol, which, if cancelled, could provide 1.5 to 2 per cent more growth. However, in oil-producing countries, these kinds of decisions always come at a high political price, so much so that the Calderón government limited itself to introducing gradual price increases for petrol in order to offset the high subsidies. What is clear is that neither private individuals nor businesses feel morally obliged or under any great pressure to pay their taxes. The additional funding provided by oil revenues means there is no real tax culture in Mexico. It is probably beyond every government to bring about a rapid change in people's attitudes to paying tax. However, new approaches to help offset the negative effects of the weaknesses in the tax system will be essential if Mexico wants to build long-term economic growth on solid fiscal foundations.

THE ENERGY SECTOR: AN URGENT AND STRATEGICALLY-VITAL NEED FOR REFORM

Up to now, Mexico's energy sector has been unusual on the American continent in that, since it was nationalised in 1938, the whole upstream oil and gas operation has been under state control. No foreign investment is allowed in this industry. The downstream component of the gas industry was relaxed in 1994, allowing new forms of investment and even a degree of privatisation, but this is still prohibited in the oil sector with the exception of the petrochemicals division. Surveys have shown that the Mexican people are also strongly opposed to privatisation in this area. In the electricity sector, the state has a monopoly over grid and power distribution, but private companies are permitted to operate in the area of electricity generation.

The debate in Mexico over the use of energy resources is tightly linked to the arguments about the involvement of private investors. The opponents of privatisation cling to the idea of national sovereignty over oil reserves, which they consider to be a national asset that cannot be disposed of or licensed out. This nationalistic basis for their arguments has broad support amongst the Mexican public and continues to trigger mass protests. Members of Mexico's parliament are also unable to escape this public pressure. The executive's reform initiatives (most recently in 2008) are therefore aimed at opening up the oil and gas market in a gradual way without getting into a fundamental debate over changes to the constitution. But the steps taken since the last round of reforms have done little to encourage critical observers that a compromise will be found between the need for reform and the nation's willingness to accept reform. The result is an ambiguous policy on oil[39] that does not offer any clear perspective on how the country's energy needs are to be met.

Gas station of the national oil company PEMEX: Since 1938, oil and gas are under government control, foreign participations are impossible. | Source: Michael C. Rael (CC BY).

39 | Cf. Isabelle Rousseau, "Las transformaciones de las políticas de hidrocarburos en México en el contexto de la transición democrática: Esquemas organizacionales y estrategias de actores (1989-2004)", *Foro Internacional,* Vol. 46, No. 1, 21-50 (49).

Although it is not a member of OPEC, Mexico has for many years tended to stay close to the organisation's price guidelines. The fact that it has never become a member is tied to the fact that it has large oil reserves that are geographically very close to the USA. The Mexican public is strongly attached to the idea that the country's oil reserves need to be clearly separate from those of the USA. It is easy to mobilise opposition to reforms in this area. Article 27 of the 1917 constitution stipulates the nation's right to oil, and its initially very limited access to oil reserves in the Mexican Gulf has become a question of national identity. Attempts by its North American neighbours to gain access to these energy resources have regularly led to major disputes between the two sides. This is why it is hugely important for Mexico to stress its bilateral relations with the USA, despite changing trends in domestic policy. It comes down to having access to oil reserves amounting to 11.4 billion barrels, the third-largest in Latin America after Venezuela and Brazil. After Brazil, Mexico possesses the largest refinery capacity with 1.606 million barrels per day and after Venezuela it is the second-largest oil exporter in Latin America with 1.487 million barrels per day (2011). In global terms, in 2011 the country had 0.7 per cent of all oil reserves, just behind Brazil.[40] In August 2012, 1.3 million barrels per day, i.e. 72 per cent of all exports went to the USA, followed by Europe with 12 per cent, Asia with 9 per cent and Canada with 3 per cent.[41]

After Brazil, Mexico possesses the largest refinery capacity and after Venezuela it is the second-largest oil exporter in Latin America.

Mexican oil production has been sinking rapidly, dropping from 3.8 million barrels per day at its peak in 2004 to 2.9 million barrels per day in 2011. The country is facing a dramatic reduction in the number of years it will be able to continue oil production because prospecting and investment in new plants has been neglected over recent years. The Canterell oil field that fed Mexican oil production for many years is now largely exhausted and there is no prospect of finding a comparable replacement in the deepwater portion of the Gulf of Mexico. Although the state-owned

40 | Unless otherwise noted, figures are quoted from the *BP Statistical Review of World Energy 2012*.

41 | Cf. Secretaría de Energía (SENER), "Sistema de Información Energética Petróleos Mexicanos. Volumen de exportación de crudo por país", http://sie.energia.gob.mx/sie/bdiController (accessed 8 Oct 2012).

petroleum company PEMEX has announced new oil discoveries in the Mexican Gulf, the company is technically not equipped to extract these deepwater reserves. What is more, they are located in the border area that falls under the territory of the USA, Cuba and Mexico. Their moratorium on extracting oil from this cross-border area came to an end in 2010, so a joint extraction agreement was signed with the USA. In the long run, the country will not be able to avoid modernising PEMEX by allowing private investment. President Peña Nieto has already made moves in this direction, saying that Brazil's PETROBRAS should be used as a model for restructuring PEMEX.[42] Mexico therefore faces the challenge of clearing up legal and technical issues before it can explore and exploit existing reserves. Current forecasts suggest that by 2020 Mexico will be a net oil importer unless it carries out intensive prospecting operations in order to find secure new reserves.

The situation as regards the supply of gas is even more dramatic. The country's gas reserves amount to 0.40 trillion cubic meters (2011), corresponding to 0.2 per cent of global reserves. Mexico's production of 52.5 billion cubic meters is not enough to cover its consumption of 68.9 billion cubic meters (2011), so it is already a net gas importer, mainly from the USA. With demand for gas increasing by a massive 6.8 to 9 per cent[43] a year, it seems likely that the country will become increasingly reliant on imports despite expanding domestic production.

In future there is likely to be a much greater emphasis on gas – also for electricity production – and Mexico will find itself faced with soaring import costs.

The country's energy mix is of course strongly weighted towards oil, which made up 58 per cent of national energy consumption in 2008. This was rounded out by 30 per cent from gas, 4 per cent from coal, 5 per cent from hydroelectric, 1 per cent from nuclear power and 2 per cent from other renewable energy sources.[44] In future there is likely to be a much greater emphasis on gas – also for electricity produc-

42 | Jenaro Villamil, "Pemex seguirá el ejemplo de Petrobras, anuncia Peña Nieto", *Proceso*, No. 1874, 29 Sep 2012, http://proceso.com.mx/?p=320387 (accessed 8 Oct 2012).
43 | Cf. Isabelle Rousseau, "Las transformaciones de las políticas de hidrocarburos en México en el contexto de la transición democrática: Esquemas organizacionales y estrategias de actores (1989-2004)", *Foro Internacional*, Vol. 46, No. 1, 21-50 (37).
44 | Cf. Country Analysis Briefs, "Mexico", http://eia.doe.gov (accessed 8 Oct 2012).

tion – and Mexico will find itself faced with soaring import costs. Major investment is also essential in the energy production sector. Mexico currently exports 1.3 billion kilowatt hours to the USA and by building generators close to the border it has demonstrated its interest in continuing to invest in this area. The same is true on the country's southern border, where investment is being ploughed into generating energy to supply Guatemala and Belize.

In June 2002, President Fox's government drew up a new funding scheme for the exploration and extraction of oil and gas in the form of multiple service contracts (Contratos de Servicios Múltiples, CSM). PEMEX wanted to make use of this instrument to bring in to Mexico 5.6 billion U.S. dollars of investment to help achieve higher extraction rates and fund new technology.[45] Within the framework of CSMs, PEMEX awarded contracts to domestic and foreign private firms to provide services that would be paid for at a fixed rate rather than by means of profit-sharing, as is the norm in the oil industry. PEMEX claims that this will maintain state control, even if the services are contracted for a period of 10 to 20 years. Instead of 10,000 separate contracts, six global contracts were concluded[46] which were viewed as a model for the way public contracts should be awarded in future. The company is forced to rely on financing and external know-how via CSM contracts because of the country's lack of expertise in the area of exploiting newly-discovered oil reserves in the deepwater regions of the Caribbean.

Mexico deliberately excluded the energy sector from the 1994 NAFTA talks, which means the USA's efforts to create a regional energy market came to nothing. But it continues to be noticeable that Washington has an interest in Mexico increasing its oil exports and becoming self-sufficient in gas. The privatisation process in the Mexican oil industry is

45 | Cf. Víctor Rodríguez Padilla, "Contratos de servicios múltiples en Pemex: eficacia, eficiencia y rentabilidad", *Revista Problemas del Desarrollo*, No. 163, Vol. 41, 10-12/2010, 119-140.

46 | Cf. „Disposiciones Administrativas de Contratación en Materia de Adquisiciones, Arrendamientos, Obras y Servicios de las Actividades Sustantivas de Carácter Productivo de Petróleos Mexicanos y Organismos Subsidiarios", http://eisourcebook.org/cms/Mexico%20Pemex%20%28NOC%29%20Contracting%20Guidelines%20%28in%20Spanish%29.pdf (accessed 8 Oct 2012).

much less advanced than in the natural gas industry, where new initiatives have been introduced such as opening up the downstream area. The bilateral ties between Mexico and the USA have helped support the desire of successive U.S. administrations to see its southern neighbour as "natural allies" when it comes to setting oil prices and supplying oil. On top of this, private energy companies continue to have a strategic interest in opening up the Mexican oil industry to foreign investors. As the USA's third-largest oil supplier after Canada and Saudi Arabia, Mexico plays an important role in the U.S. market, particularly in light of the conflicts in the Middle East and Washington's shaky relations with Venezuela. In addition, the oil and gas markets in the whole American continent have expanded significantly over recent years thanks to the booming demand for resources from China and India. In this respect, the USA's desire to maintain independent energy supplies and stable prices has dominated its specific interest in Mexican resources. However, the main focus continues to be on a bilateral agreement that is not aimed at integrating the North American energy markets, as Mexico still seems reluctant to take this route. At the same time, there is clear interest in allowing the broader involvement of U.S. firms in the CSMs and making use of the elbow room that is available in the gas and petrochemical industries.

As the USA's third-largest oil supplier, Mexico plays an important role in the U.S. market, particularly in light of the conflicts in the Middle East and Washington's shaky relations with Venezuela.

The Calderón government made moves in this direction by once again seeking to introduce reforms in the energy sector. The Energy Reform Law was finally passed in November 2008 after an intensive public and parliamentary debate that once again demonstrated how nationalism and oil are inseparable issues in Mexico. Despite strong protest from the opposition, seven sections of the bill were approved giving PEMEX more freedom when awarding contracts and allowing joint projects with other oil companies. However, this was under the strict condition that remuneration should only be monetary and should not involve any licensing of extraction rights. A new regulatory body was also established, the Comisión Nacional de Hidrocarburos. This was set up as a separate entity to PEMEX and given the task of overseeing the company's strategic decisions.

With the wide-ranging process of privatisation that formed part of the policy of structural adjustment entered into from 1982 and particularly after 1988, the Mexican government provided itself with all the resources it needed to bolster its system of clientelism. The structural adjustment processes introduced after the financial crises of 1982 and 1994 led to a reduction in pensions for the existing elite within the PRI, but to date PEMEX has been excluded from this process. The company's trade unions – particularly the STRPM – have consistently managed to operate as a "state within a state" by negotiating exclusive rights and benefits for their members. The fundamental patrimonial and patriarchal structures of social organisation have continued in existence, with "Mexican modernity" being an expression of the hybrid nature of the social change that has thus far failed to make any dramatic breakthrough. Today it seems doubtful whether this kind of politics can continue. This paternalistic model seems to have gone as far as it can, in light of the urgent need for reform in the energy sector and pressing financial issues. But there are still those who hope that an election victory by the PRI will give it new momentum.

Mexico has succeeded in reducing its dependence on oil revenue and its social development is no longer as dependent on the oil sector as it was 15 years ago.

The goals and achievements of Mexico's energy policy are proof of the country's constant state of ambivalence. Its export trade is totally focused on the U.S. market, and the government is trying to find constitutional ways of involving international oil companies in its production without affecting ideas of national sovereignty. Mexico has succeeded in reducing its dependence on oil revenue and its social development is no longer as dependent on the oil sector as it was 15 years ago. The economic and energy policies of Mexico and the USA are based on fundamentally different concepts with regard to a common energy market, and this hinders opportunities for increased cooperation in this area of the oil industry. In contrast, more flexible rules have been introduced for gas and electricity. Looking to the future, U.S. policies on energy security will continue to have a crucial effect on how Mexico proceeds in practical terms.

POLICIES FOR COMPETITIVENESS AND INNOVATION – EN ROUTE TO GREATER PRODUCTIVITY

If we take a look at the international competitiveness index, we see that Mexico ranks quite low, despite a positive trend over recent years. In the *Global Competitiveness Index* compiled by the World Economic Forum (WEF), in 2000 the country was in 32nd place. During the crisis year of 2009 it dropped back to 60th and in the current report for 2012/2013 it has climbed back up to 53rd.[47] With this ranking, Mexico finds itself behind emerging economies such as Singapore, South Korea, China and Brazil, but it has once again managed to stay ahead of India. It is only rated in the top 25 per cent of countries for 3 of the 12 criteria assessed by the index (macroeconomic stability, size and depth of the domestic market and transport infrastructure), while it finds itself in the bottom third of the 140 countries studied in the areas of innovation, higher education and training, and public institutions. On top of this, the country is rated poorly for its regulation of the labour market, its low levels of investment in innovation and development and factors relating to its precarious security situation.[48] A report published by the Mexican Institute for Competitiveness (Instituto Mexicano para la Competitividad, IMCO) makes clear the huge task that awaits the new government (Table 1).[49]

The country's new government will have to put renewed effort into the areas of competitiveness and productivity. According to the National Institute of Statistics, labour productivity only grew on average by 0.6 per cent between 2004 and 2010, whereas levels of 3 per cent were achieved during phases of dynamic industrial expansion.[50] According to figures from the World Bank, in 2008 a Mexican worker was only 61 per cent as productive as a

According to figures from the World Bank, in 2008 a Mexican worker was only 61 per cent as productive as a South Korean worker.

47 | Cf. World Economic Forum, "Global Competitiveness Index 2012-13", http://www3.weforum.org/docs/CSI/2012-13/GCR_Rankings_2012-13.pdf (accessed 8 Oct 2012).

48 | Cf. Klaus Schwab and Xavier Sala-i-Martín (eds.), "Global Competitiveness Report 2012-13", Geneva, 2012, 49.

49 | IMCO, "Más allá de los BRICS. Índice de Competitividad Internacional 2011", Mexico City, 2011.

50 | Cf. Adrián de León Arias and Pablo Sandoval Cabrera, "Política industrial, competitividad y productividad: una relación necesaria para el desarrollo", in: José Luis Calva (ed.), *Nueva estrategia industrial*, Mexico City, 2012, 186-218 (199).

South Korean worker, so it may be advisable for the OECD to recommend policies on training and innovation and the reduction of transaction costs when starting up new companies. More investment and research and a greater focus on science and technology are also essential. There is also the question of geography when it comes to productivity: whereas the states in the north close to the U.S. border have very high productivity levels, the south of Mexico is heading in the opposite direction. This is reflected by a corresponding gap in wages, making regional disparities ever stronger.

Table 1
Global ranking of Mexico in terms of competitiveness (2001-2010)

Competitiveness factors	2001	2005	2010
Economic sectors with potential	25	28	31
Favourable international relations	32	26	41
Efficient and effective governments	28	28	32
Economic sectors with world-class characteristics	36	35	30
Market with efficient factors	39	42	30
Stable and functional political system	26	27	38
Stable macroeconomy	31	28	25
Open, qualified society	34	34	34
Sustainable environmental policy	40	42	39
Objective and trustworthy legal system	34	35	35
Overall ranking	32	32	32

Source: IMCO, n. 49.

It is clearly essential to have strong industrial policies in a country like Mexico, where a sector made up of a maximum of 300 internationally-based companies with strong export activities is counterbalanced by a mass of micro-, small- and medium-sized enterprises providing 85 per cent of the country's employment.[51] In light of the growing informality

51 | Cf. Mario Capdevielle and Gabriela Dutrénit, "Políticas para el ‣

of Mexican business, such policy initiatives should also be viewed as a way of countering the further expansion of the informal economy. It is essential to have a national system for innovation that can introduce new instruments to ensure domestic production is increasingly tied in to global value chains and in this way overcome obstacles in the areas of training and education, new technologies and the ability to innovate. This system needs to be separate from traditional policy approaches involving state-regulated or directly state-run production. In particular, there needs to be a great deal more investment in research and development. At present, Mexico's expenditure in this area amounts to 0.4 per cent of GDP, putting it in last place, according to OECD statistics. This not only applies to government funding, but also to contributions by the private sector in this area. The interaction of industrial policy and the promotion of science and technology are of prime importance for allowing the synergies between these areas of policy to evolve and become effective. The list of actions set out by the OECD[52] shows the way ahead for the necessary turnaround in Mexican innovation policy towards developing increased productivity, but also shows that this will affect the position of the established economic and trade union powers, and it may be difficult to win them over to this new direction.

It is essential to have a national system for innovation that can introduce new instruments to ensure domestic production is increasingly tied in to global value chains.

ECONOMIC REFORM PLANS AND THEIR POTENTIAL PITFALLS

Mexico has high expectations that the international community will recognise the country's achievements as it strives to be seen as one of the BRICS nations. On the other hand, it will still require a considerable amount of effort to overcome the huge obstacles that stand in its way

desarrollo productivo y la innovación: desafío y oportunidad para la economía mexicana", in: Calva (ed.), n. 50, 153-184.

52 | Cf. OECD, "Reformas estructurales en las políticas regulatoria, de competencia y de educación para lograr un crecimiento más rápido de la productividad", *Estudios económicos de la OCDE, 2011*, OECD Publishing, http://www.oecd-ilibrary.org/economics/estudios-economicos-de-la-ocde-mexico-2011/reformas-estructurales-en-las-politicas-regulatoria-de-competencia-y-de-educacion-para-lograr-un-crecimiento-mas-rapido-de-la-productividad_9789264115934-6-es (accessed 8 Dec 2012).

if it is to be seen as being in the same league as the other BRICS countries (Table 2). With the exception of South Africa, Mexico's economy – with all its cyclical fluctuations – has not come close to matching the success of the other BRICS countries over the last decade. An ongoing debate in Mexico under the heading of "Why isn't BRIC written with an M?"[53] was sparked by a comment made by the Mexican president Felipe Caldéron at the Economic Forum in Davos in 2007.

Table 2
Percentage of global GDP by country (in per cent)

Country	1990	2000	2010
Brazil	2.11	2.00	3.31
China	1.63	3.72	9.32
India	1.45	1.43	2.74
Mexico	1.20	1.81	1.65
Russia	2.36	0.81	2.35
South Africa	0.51	0.41	0.58

Source: World Bank.

In line with its belief that it is a "country bridging the divide between regions and cultures",[54] a self-image that was clearly evident under both the conservative governments of Fox and Calderón , Mexico pursued an active policy of diversification in its foreign trade relations. The country signed bilateral and bi-regional free trade agreements with 43 countries worldwide, including Israel, Japan, Costa

53 | Cf. Alejandro Nadal, "BRIC se escribe sin M", *La Jornada*, 31 Jan 2007, http://www.jornada.unam.mx/2007/01/31/index.php?section=opinion&article=025a1eco (accessed 8 Oct 2012); Jorge Eduardo Navarrete, "BRIC se escribe sin M", *El Periódico de México*, 2 Jul 2009, http://elperiodicodemexico.com/nota_impresion.php?sec=&id=266226 (accessed 8 Oct 2012).

54 | This idea was promoted by President Vicente Fox (2000-2006) in particular. Cf. "Como país puente entre regiones y culturas, México está decidido a desempeñar un papel activo y de vanguardia en la conformación de un sistema internacional que responda a los desafíos de los tiempos actuales.", address by the President of Mexico Vicente Fox during the general debate of the 56th UN General Assembly, 10 Nov 2001, http://un.org/webcast/ga/56/statements/011110mexicoS.htm (accessed 8 Oct 2012).

Rica, El Salvador, Uruguay, Chile, Guatemala, Honduras, Nicaragua, Bolivia, NAFTA, EFTA (Iceland, Norway, Liechtenstein, Switzerland) and the EU.[55] However, this process ground to a halt around the year 2005. New initiatives with China and India and the Pacific region never really get off the ground and no new agreements have been signed in recent years. So it is no surprise that many observers have complained that Mexico has failed to take advantage of the potential in the Asia-Pacific region, despite being a member of APEC for many years.[56] President Obama's invitation to Mexico in June 2012 to become the tenth country in the Transpacific free trade agreements (Transpacific Partnership) gained the Calderón government a level of acceptance that has improved the country's international standing.[57]

The new government under President Enrique Peña Nieto has let it be known that it wants to position Mexico as an "emerging economy" with a clear interest in shaping international policy.[58] This is a new orientation for the country, but it will need to push through structural reforms if it is to successfully take up this new role and make Mexico more attractive for foreign investment. Peña Nieto attended numerous economic forums during trips abroad in the run-up to taking office in order to get across the message about his country's new direction.

Setting this goal does not mean that all the existing obstacles to reform have been overcome, but Mexico's congress is currently discussing reforms to the country's labour laws, which should lead to significantly more flexibility in the labour market. However, this joint PRI-PAN effort to

55 | Cf. ProMéxico, "Tratados comerciales", http://www.promexico.gob.mx/es_us/promexico/Trade_agreements (accessed 8 Oct 2012).
56 | Cf. Jorge Alberto Lozoya, "México ante el resurgimiento de Asia Pacífico", in: Guadalupe González and Olga Pellicer (eds.), *Los retos internacionales de México. Urgencia de una mirada nueva*, Mexico City, 2011, 129-144.
57 | Cf. Posición de México en el TPP, http://economia.gob.mx/comunidad-negocios/competitividad/nota-dia/7330-posicion-de-mexico-en-el-tpp (accessed 8 Oct 2012).
58 | Cf. his statement: "México como el país que en América Latina puede tener las condiciones para la inversión, como una economía emergente con un futuro inmediato promisorio para la inversión", http://www.enriquepenanieto.com/sala-de-prensa/entrada/en-mexico-hay-animo-politico-y-social-para-encontrar-un-verdadero-cambio-ep (accessed 8 Oct 2012).

introduce labour law reform will also affect the established elites and success is not guaranteed. As with reforms to the tax system and the energy sector, this project is likely to face stiff opposition from corporate interests within both the unions and big business, and as such can be seen as a litmus test of the new president's ability to pursue his political agenda. It will affect the traditional core members of his own PRI party, an organisation that still runs along corporate lines which tend to hamper the development of internal democracy. In addition, the maintenance of national sovereignty forms a fundamental element of PRI ideology, but it may need to be sacrificed on the altar of opening up the energy sector to private investment. These ideological remnants from the Mexican Revolution and post-revolutionary period can still be mobilised and could put the brakes on the president's plans for reform. Without a robust alliance in favour of reform it is difficult to see how the new programme designed to re-position Mexico on the world stage can be successful. The new president can expect to face opposition from within society, business and the established power structures, but he may also find that his own party becomes a serious obstacle to progress.