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Mexico Tumbles Again in Global Competitiveness Index

by LADB Staff

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Mexico's ranking on a global index of competitiveness fell for the fourth consecutive year in 2005. Mexico ranked 55 this year on the annual index published by the World Economic Forum (WEF), compared with 48 last year. The index, which includes 117 nations, measures a country's business climate using a combination of public data and surveys.

The Geneva-based WEF said Mexico's ranking this year was hampered by uncertainty surrounding the 2006 presidential election and the country's inability to push through tax and energy reforms. Mexico currently has one of the lowest rates of tax collection in Latin America, which forces the country to cover more than a third of its budget from taxes on oil revenue (see SourceMex, 1999-11-03, 2001-04-14 and 2004-08-25).

The WEF said other factors that contributed to the decline in Mexico's competitive position were the high rate of corruption still prevalent in Mexico and the government's inability to control crime and violence. Drug violence has especially been a concern in the north, as cartels engage in turf battles to control trafficking routes (see SourceMex, 2005-02-02 and 2005-08-10).

Political culture a key factor

WEF director Augusto Lopez-Claros also placed the blame on the political culture in Mexico, where the quality of public debate has deteriorated. "It is apparent that the political establishment in Mexico is more attuned to political maneuvers connected with the presidential election than to the enactment of structural reforms," said Lopez Claros.

Lopez Claros said Mexico has also failed to promote the type of institutions that will help the country compete with the growing Asian economies.

Among Latin American countries, Mexico trailed Chile, which ranked 22 on the WEF index, and Uruguay, which ranked 54. Finland, the US, and Sweden held the top three spots.

Guillermo Ortiz Martinez, chief governor of the Banco de Mexico (central bank), said the decline in Mexico's competitive position has occurred during the past five years. This, he said, has prevented the country from attaining its goal of achieving 1% GDP growth each year. Ortiz made the comments during testimony before the Senate finance committee (Comision de Hacienda).

Ortiz said Mexico's sluggish economy during the past several years has resulted in the loss of its competitive position on the export market. "We calculate that if we had retained the same participation in the market as we had in 2000, our exports during the last three years would have given us an additional US$30 billion in revenues," said Ortiz.
The central bank governor did not, however, mention the impact of China on Mexico's competitive position. The Asian country has displaced Mexico in the US market, which has been the country's top trading partner (see SourceMex, 2005-02-16).

Ortiz also warned against a continued reliance on oil exports to fund the Mexican economy. "We do not know how long oil prices are going to remain high," he said.

**Business leaders offer blueprint**

Ortiz endorsed the Acuerdo de Chapultepec, a declaration promoted by a group of 400 business leaders. The declaration asks for government reforms, better public services, and more investment opportunities. "If the agenda of development and modernization becomes the country's political agenda, then we will have taken a great step forward," said Ortiz.

The 12-page plan, called the Acuerdo Nacional para la Unidad, el Estado de Derecho, el Desarrollo, la Investigacion y el Empleo, was released at a ceremony at the Chapultepec Castle in Mexico City in late September. "We hope it will create enough consensus so that the measures Mexico needs to remain competitive are taken," said Mario Molina, the 1995 Nobel laureate in chemistry, who was one of the principal speakers.

Analysts said the document is an effort by the private sector to put its stamp on the 2006 presidential election. "Businessmen have always participated in politics, but they've done it behind the scenes," said political analyst Oscar Aguilar. "The thing is now that they're nervous...and they have reason to be." (Sources: World Economic Forum Web site, www.weforum.org; Reuters, 09/28/05; El Financiero, 09/29/05; The Herald-Mexico City, 09/29/05, 09/30/05; La Cronica de Hoy, 09/30/05, 10/05/05; Bloomberg news service, 09/29/05)