

FEBRUARY 24, 2014

Six-Year High Schools

Africa's Unholy War

TIME



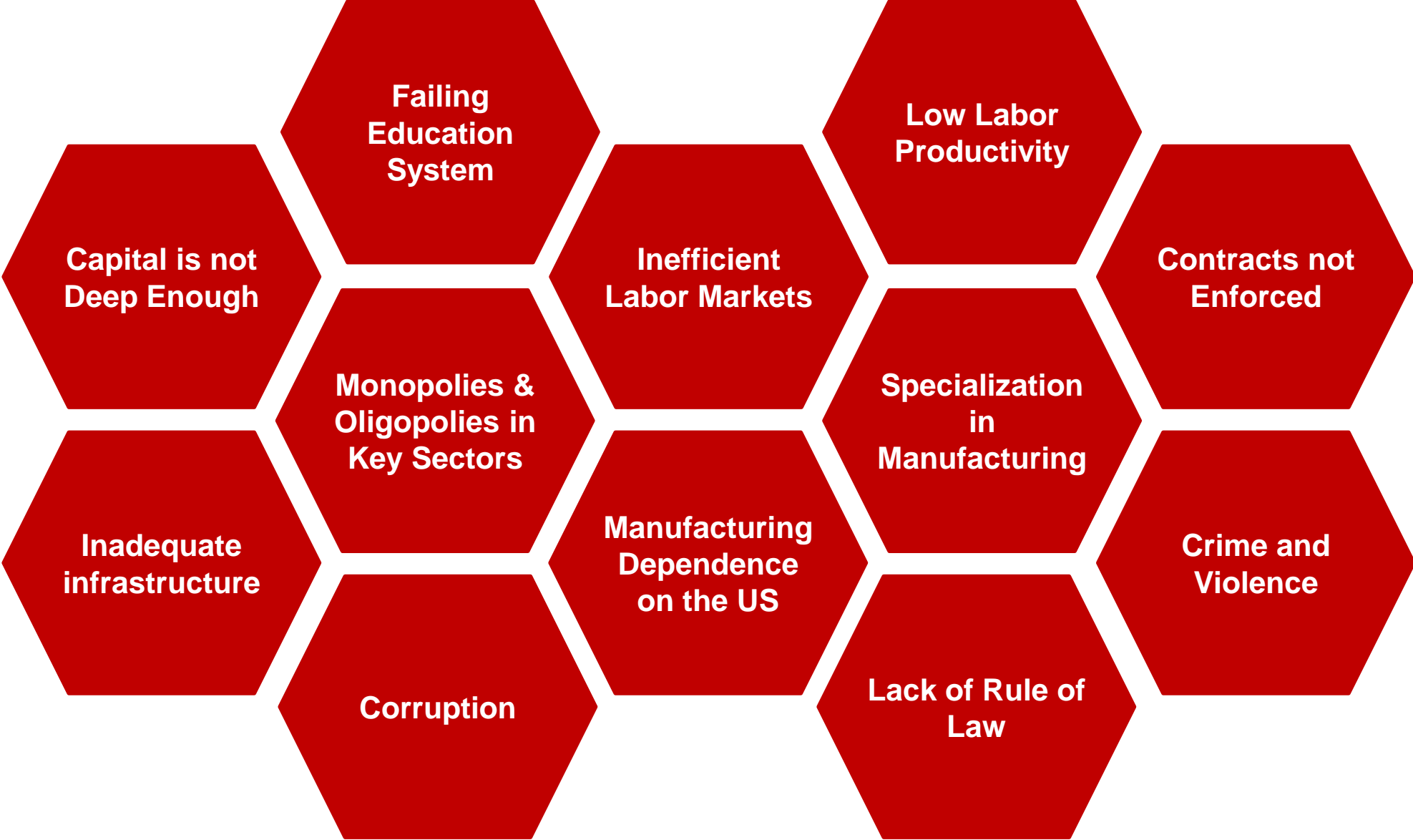
# “Peter Pan” to Powerhouse: Mexico, 2015-2040

Prepared by: Lior Bechar, Dheeraj Chinthalapelly, Perryne Desai, Subhash Ganga, Jonah Lowenfeld, Juan Gonzalez Paris

SAVING  
MEXICO



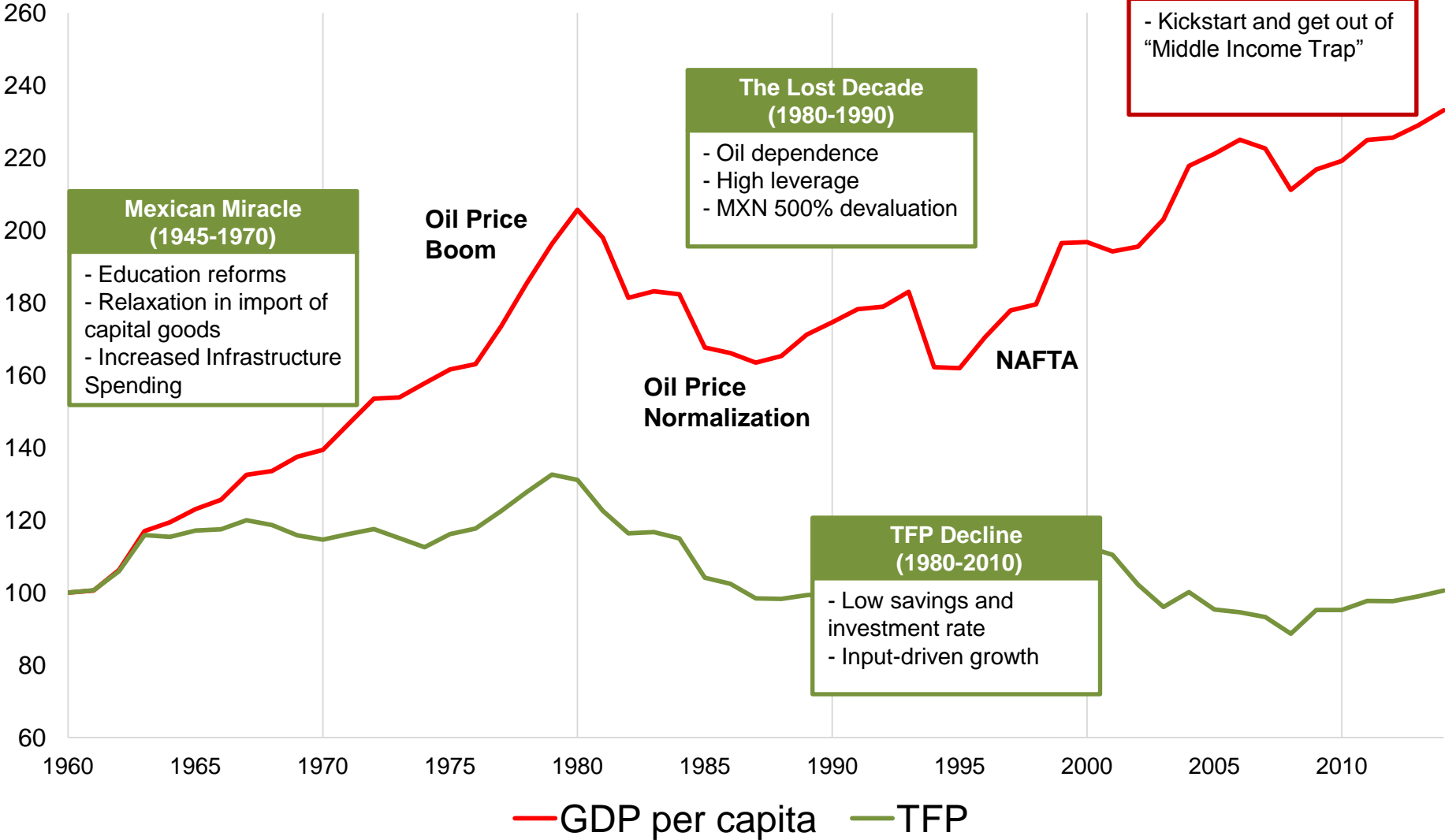
# Mexico faces many obstacles...



# ...but history suggests Mexico has great potential for growth, which can be unleashed with reforms in 8 key areas...

## GDP per Capita Evolution Over Time

Source: World Bank, FRED, OECD



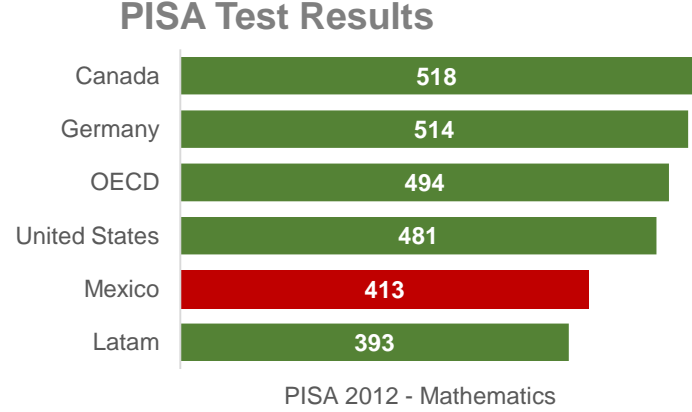
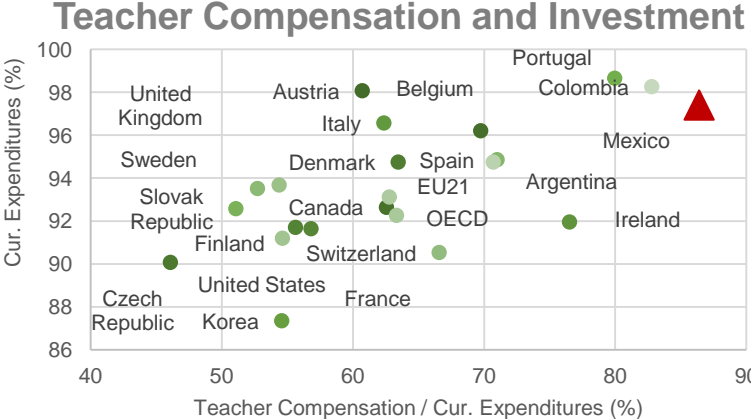
## Growth Accounting

Source: World Bank, FRED, OECD

| Period    | Y/N   | $\alpha K/L$ | L/N   | TFP   |
|-----------|-------|--------------|-------|-------|
| 1961-1969 | 3.17  | 1.43         | -0.24 | 1.99  |
| 1970-1979 | 3.27  | 0.30         | 2.24  | 0.73  |
| 1980-1989 | -1.14 | 0.10         | 1.38  | -2.62 |
| 1990-1999 | 0.83  | 0.24         | 0.79  | -0.20 |
| 2000-2014 | 1.62  | 1.16         | 0.28  | 0.18  |

# An improved education system coupled with a more efficient labor market will support sustained economic growth

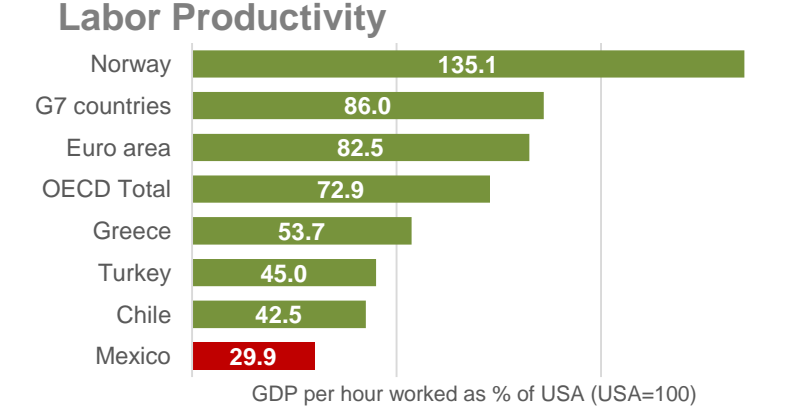
## 1 Education



### Reforms

- Evaluations of teachers
- Autonomous regulators

## 2 Labor Efficiency



**136<sup>th</sup>**  
 Rank in 'Employing workers' - Doing Business 2010

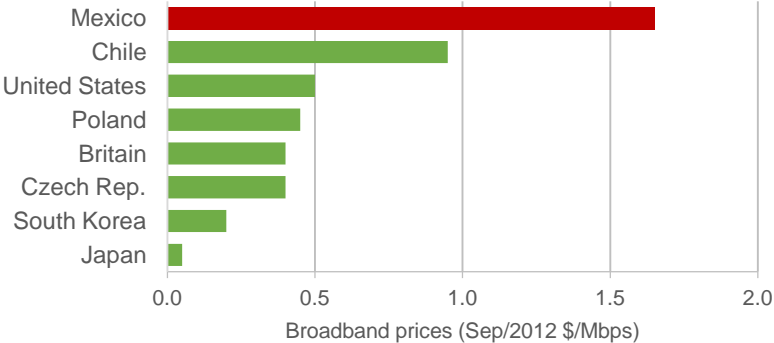
### Reforms

- Increase flexibility with the Federal Labor Law
- Challenge union bosses
- Easier to hire and fire, and to settle disputes

# Key sectors have are controlled by few big firms increasing input costs for the economy, while an increasing share of SMEs lost 6.5% in productivity

## 3 Competitive Landscape

Broadband Prices



Key Industries with few competitors

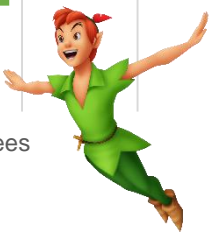
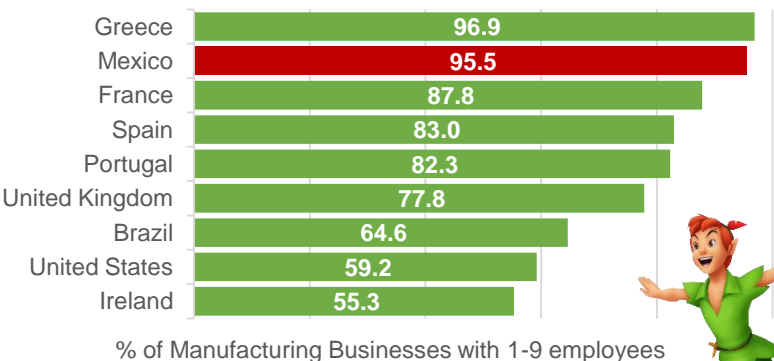


## Reforms

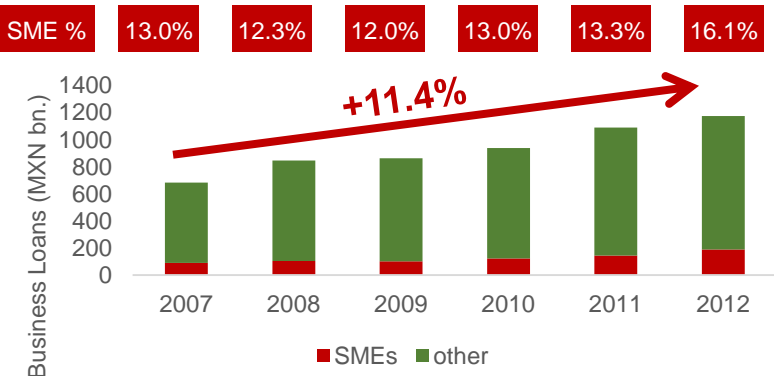
- New competition authorities
- Ending monopolies
- Increased competitiveness

## 4 Business Informality

The Peter Pan System at work



SMEs with Low Access to Credit



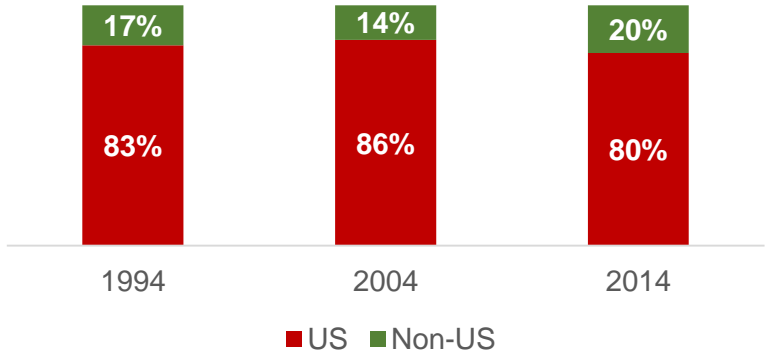
## Reforms

- Fiscal reform to bring SMEs into formal economy
- Increase financial access
- Increase credit rights protection

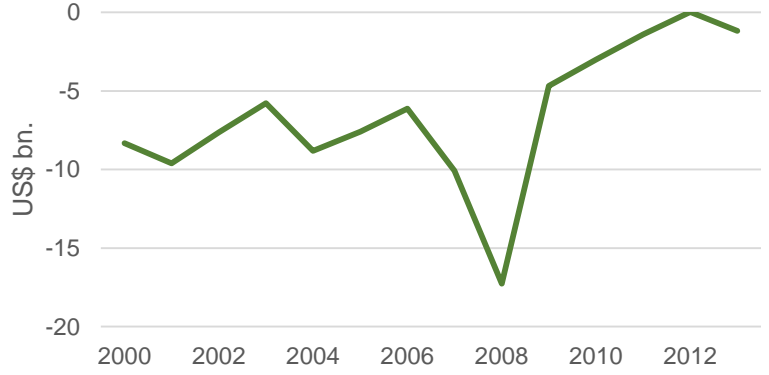
# Upcoming FTAs should diversify Mexico's output while spending in infrastructure will surge

## 5 Trade

U.S. Share of Exports from Mexico



Mexico's Trade Deficit



### Reforms

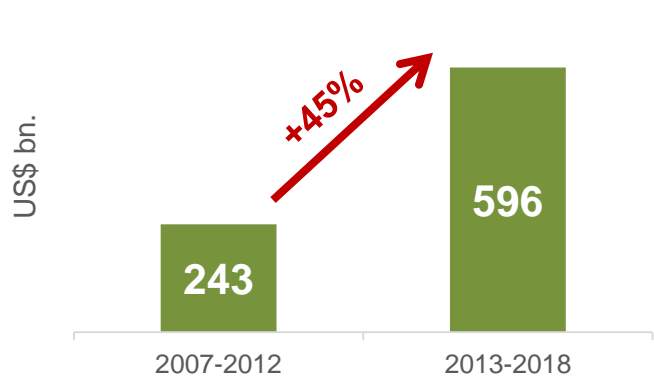
- Pacific Alliance
- Trans Pacific Partnership, invited by U.S.

## 6 Infrastructure

**69**  
out of 133 in the WEF infrastructure competitiveness index

**47**  
out of 57 in IMD's World Competitiveness Index

Projected Infrastructure Spending



### Reforms

- Significant increase in spending (already being implemented across sectors)

# But... How should Mexicans reconcile the recent corruption scandals and weak law enforcement?

## 7 Crime and Rule of Law



Protests following the killing of 43 students in state of Guerrero 11/2014

**95%**  
of the offenses are not solved or punished

**80%**  
of homicides are not solved or punished



### Reforms

- Small claims court to enforce contracts
- Unified national code for criminal proceedings
- More police

## 8 Governance and Corruption



President's wife apartment related to scandal 11/2014



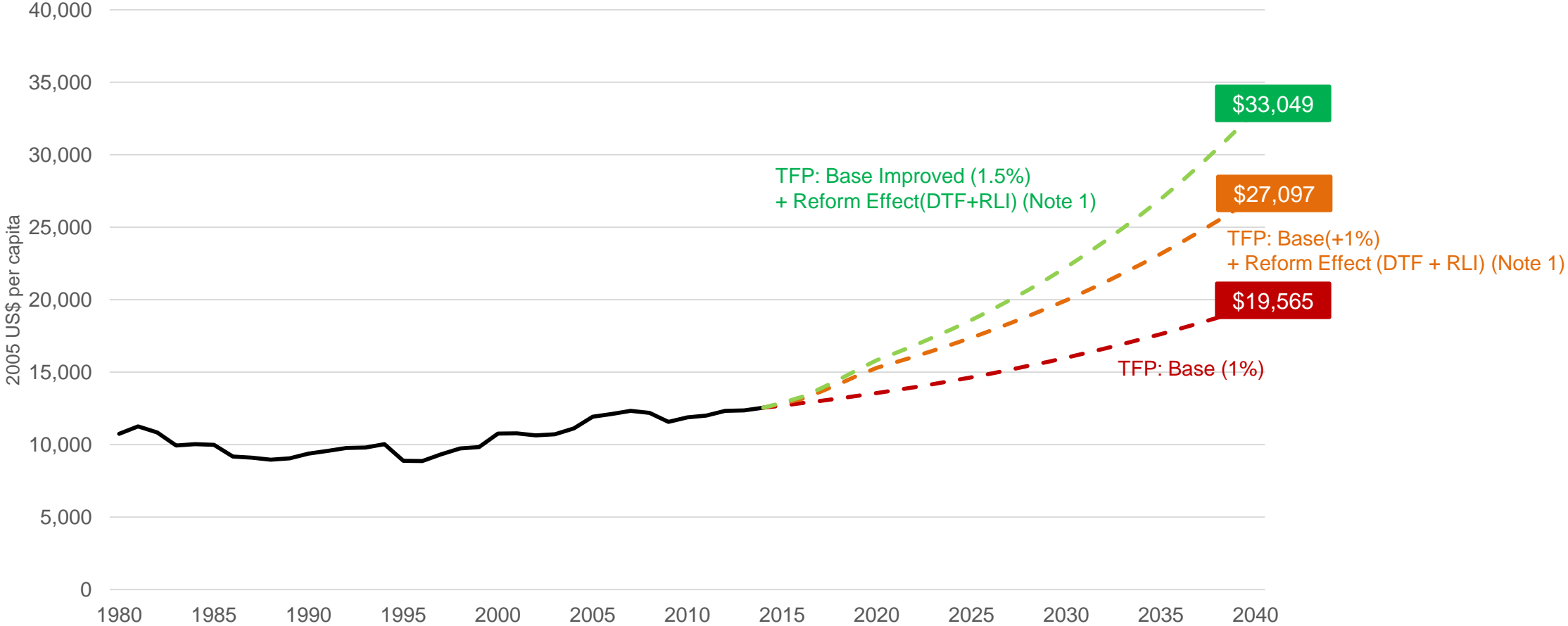
### Reforms

- Anti-corruption authority
- Administrative sanctions on officials
- New rules to incentivize officials

# Mexico is at an inflection point and its government has initiated reforms aimed at boosting the economy's productivity and making it more competitive

## Solow Model GDP per Capita Projection

Source: World Bank, FRED, OECD, own calculations



**Note:**  
1: A regression of TFP growth on the Rule of Law Index (CFS and WEF) and the Distance to Frontier(World Bank Doing Business) on 26 upper middle income countries was performed to estimate the reform effects. Substantial improvement on business environment, infrastructure and labor force in 2016-2019 (represented by DFT) and in governance and rule of law (RLI) in 2017-2020.



# Conclusion and Recommendation

- **Probability of Success**

- Government has failed many times in the past
- Current administration's reforms are sincere and thorough

- **Our thoughts**

- Even the progress to date is worth investment
- Invest in Mexico now given the reform to date & trajectory of future reform

*“Deserve what you dream”*

Octavio Paz  
Mexican Nobel Literature Laureate 1990