The Mexican Hat Dance

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The late Mexican author, Carlos Fuentes, was no fan of Enrique Peña Nieto (he felt he lacked substance) who will become Mexico's next president on 1 December unless the challenge made by Andrés Manuel López Obrador, who narrowly lost, is upheld this month. Certainly, the late author would have been disturbed to see the return to power of the Institutional Revolutionary Party (IRP), to which Mr Peña belongs, and which ruled for most of the 20th century then became an opposition party in 2000. A man of letters in the traditional sense, Carlos Fuentes wrote well over 50 books as well as plays and essays; leftwing in his views (but a believer in democracy) his famous 1962 novel, "The Death of Artemio Cruz", followed the life of a corrupt Mexican politician and wealthy newspaper magnate who prospered in an environment absent the ideals engendered by revolution in which oligarchies and oligopolies thrive. Enrique Peña said that even although he had not always shared the late author's political views, he acknowledged the quality of the writing. His knowledge of both Latin American and British cultures meant that the author was (literally) equally at home in both Mexico City and London; this outside perspective was obvious in his books which had benefited from an experience of travel as the son of a diplomat.

Unfortunately, the opposition National Action Party's (NAP) presidential candidate, Vicente Fox, who took power in 2000 proved to be a disappointment (see Unhappy Endings, Latin Letter, Issue 162) and the high hopes he inspired (and doubtless shared by Carlos Fuentes) turned out to be false. His successor in 2006, Felipe Calderón from the same conservative party, although more skilled as a politician than Vicente Fox, mistakenly chose to challenge the country's drug barons head-on, rather than taking incremental steps towards weakening their hold, which escalated the violence alarmingly (since 2006 it is thought that around 50,000 people have died in the "war on drugs", including a shoot-out in Mexico City's international airport earlier this year) and disaffected the electorate.

Despite drugs, the resilience of the economy cannot be denied and it is changed days from the oil bust in the 1980s, followed by the banking crisis in the mid-1990s, both of which were fuelled by the country's toxic mix of corruption, autocracy and populism (see Distant Thunder, Latin Letter, Issue 177). But it must be said that whilst the IRP introduced a culture of patronage in which democracy was drip-fed into politics, and the country's institutions were frail, nonetheless the party brought both economic stability and continuity, if not security. Credit, however, must be given to both the IRP and the NAP because despite opposing ideologies they have each tried to put the public finances in order. Public debit is just 36% of GDP and the country is attractive for investors; economic growth could be over 3.5% in 2012.

Since 2006, Mexico's economy has grown by 22% compared with 9.8% for the United States of America; today it is eurozone countries that are lining up outside the door of the International Monetary Fund. Last year the country's economy grew faster than Brazil's, even although it is only half the size of its southern neighbour's, which is over USD2.5 trillion. Back in 2000 investors in Brazil feared the future after Luiz Inácio Lula da Silva, known as Lula and a left-winger, came to power; but events proved otherwise, and Mexico was no longer the rising regional star. Meanwhile, power in Mexico shifted to the regions following Vicente Fox's election and the cohesion, albeit corrupt, of the IRP was lost. Rome, in this case Mexico City, with its presidential Caesar, no longer ruled and not all roads led to it any more. Whilst Mexico became unglued, Brazil emerged from its currency crisis and its new president continued to confound his critics.

But today we have an interesting development. China's economy, which has made Brazil rich, is slowing down (rebalancing as some economists have suggested) and Mexico's manufacturers are on the rise because China is no longer as competitive as it was when it first entered the World Trade Organisation; its labour and transport costs have risen whereas Mexico's have remained fairly constant. According to a study by JP Morgan, Mexican wages in 2002 were 237% more than China's, but today that gap has been reduced to just 14% and it is expected that Chinese wages will exceed those in Mexico within five years.

Regular readers of this column will know that last year (Come Together, Issue 218) I wrote about the convergence of economic interests in Latin America with more Mexican goods going south; there was a 50% increase between 2009 and 2010 in such exports. In my April column (Laughter and Tears, Issue 225) I mentioned Mexico's determination to broaden its trade horizons, especially by joining the regional trade bloc known as the Alliance of the Pacific. Even although I did argue that Mexico remained a hostage to the economic fortunes of the US, we have seen a loosening of the ties that bind, in that six years ago 90% of exports went to the US versus just under 80% today.

The quality of goods manufactured in Mexico has also improved significantly and as long ago as 2009 it was already the world's largest exporter of flatscreen televisions. Back in 1980 the value of manufactured exports was equivalent to 2% of Gross Domestic Product and 30 years later that figure has increased to about 24%. The reliance on oil exports has moved in the opposite direction: oil represented around 71% of total exports in 1980 and now that percentage is just below 14%, similar to the present Chinese wage advantage.

Although fears are growing that the after-shocks of the global recession are seeing protectionism coming to the fore which could harm the developing regional integration, Mexico is well positioned to counter this because, like the United Kingdom, it has an open economy. It has trade agreements with 44 countries (twice as many as China and nearly four times as many as Brazil). In 2010, trade made up nearly 60% of GDP, more than in China (48%), the US (22%) and Brazil (19%). What's more, Mexico sits next to the world's largest market and can deliver product to it rapidly; in some instances within 48 hours. This proximity gives the Mexicans a significant advantage over the Chinese (it is estimated that it takes between 20 days and two months to ship goods from China to the US).

As for narrowing the competitive gap with China, the first consignment of 100 cars went there in July, built by Fiat's plant in Mexico and the plan is to increase the number to 50,000 annually. Mexico is a global car producer and the industry racked up USD23 billion in exports (more than oil or tourism) last year. The same month Fiat in Mexico was celebrating these car exports to China, Americans celebrated their independence and it's a good guess that many of the hamburger buns consumed at barbeques across the US on the 4th of July were supplied by Mexico's Bimbo, the world's largest baker. It's safe to say that Mexico is on a roll, in more ways than one.

Provided the legal challenge mounted is unsuccessful, it will be up to the handsome 45 year-old Enrique Peña to live up to his campaign slogan: Peña Sí Cumple (Peña delivers). His financial achievements as governor of the State of Mexico for six years were impressive, but his task now is to reduce the scourge of drugs trafficking (there are, thankfully, already indications that drug crime is decreasing due to better intelligence and the strengthening of police and military engagement) and at the same time strengthen democracy's grip. Will he produce the magic of Brazil's Lula, initially feared then favoured?

The Mexican Hat Dance, with its roots in the country's Revolution, is both a courting dance and a symbol of national unity; the new president must court the politicians of every stripe to bolster national unity and at the same time turn every Artemio Cruz away who wants to join in the dancing.

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