Mexico’s Economic Integration and Regional Economic Growth, Recent History and Outlook

Alejandro Díaz-Bautista

Abstract

Mexico is currently facing several challenges in the political, demographic, economic and social spheres. A period of 25 years was defined at the beginning of the Fox Administration, as the amount time for national economic development to crystallize. The vision of Mexico in the year 2025 that the government aspires is summed up as follows: a nation that is fully democratic and with economic stability; with a high quality of life; that has managed to reduce extreme social imbalances; and that offers its people opportunities for comprehensive human development and coexistence based on respect for the legality and the true exercise of human rights. The Mexican government vision of Mexico is of a dynamic nation, with leadership within the world environment, with steady and competitive economic growth, integrated with the world economies with inclusive development, and, in balance with the environment. However, the recent economic history of Mexico has shown that a steady and competitive economic growth in the near future will not be easily obtained.

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1. Introduction

Mexico’s long-term growth has been characterized as one that depended on import substitution industrialization to a global trade interdependence of the economy. In order to enhance the economic fundamentals and to reduce inflation, the government had economic programs that stabilized costs, improved government finances and allowed the economy to grow with a low inflation rate. In other words, the amount of money in circulation was not allowed to increase, and prices were prevented from constantly increasing by the application of wage indexation.

The program of stabilizing development was applied during the presidency of Ruiz Cortines and López Mateos. López Mateos nationalized the power industry, completed the nationalization of railroads and created the National Commission for free textbooks. By 1964, at the end of his presidential period, Mexico had enjoyed thirty years of political stability and stable economic growth. The end of the import substitution economic came during the presidency of Lopez Portillo. Varying rates of economic growth and the trade liberalization process culminating in the NAFTA agreement and entry into GATT characterized the presidencies of Miguel de la Madrid and Carlos Salinas. Since taking office in late 1988, Salinas privatized banks, ended costly government subsidies, streamlined the government bureaucracy, liberalized foreign investment regulations, sold or closed inefficient companies and proposed the NAFTA agreement to enhance economic growth.

The last administration of the 20th century in Mexico was under President Zedillo. In 1999, Mexico experienced a 0.5% growth in productivity, a true achievement given its –0.6% growth record between 1990-1998. However, real industrial wages saw a decrease of negative1.5%, and the minimum wage had a negative growth of –1%. On December 1, 2000, Vicente Fox of the
National Action Party was inaugurated as Mexico's President. This was a historic victory over the Revolutionary Institutional Party, which held the presidency for 71 years. The Fox administration maintained the economic policies implemented by the two previous administrations with poor results in terms of economic growth in the first couple of years of the administration. Fox’s administration shows clear signs of tensions with the Mexican Congress, in areas such as foreign trade and foreign policy disputes, the rejection of the government’s power reform plan, the fiscal reform and the composition of the public sector spending cuts. The administration has also maintained the openness policies in terms of trade acknowledging the benefits of NAFTA. Ten years after the passage of NAFTA, North America as a whole shows an increase in welfare, with certain sectors facing economic difficulties and increasing inequality. For Mexico in particular, several sectors in the economy had varying rates of growth. During the seventies and all the way to the year 1981, the Mexican economy grew at a rate of 2.9%, due to the multiplier effects of oil revenues. In 1981, the oil crisis brought about changes in the growth dynamics by sector of the Mexican economy. During the period of trade liberalization, some sectors, like the mining, agricultural and fishing sectors, had negative growth rates. While some sectors show impressive annual growth rates like the financial and insurance services sectors. Mexico experienced an extremely fast development of its goods trade during the last 10 years, as a consequence of the entry into NAFTA. Its share of world exports has grown from 1.1% in 1990 to 3.1% in 1999, while Mexican imports increased from 1.2 to 3.1% of world share. The main impulse to trade growth was given by the so-called maquiladoras in the manufacturing sector: assembling companies, working with imported components and machinery (the vast majority from the U.S.) and re-exporting the production. However, the maquiladora system has been widely criticized, as creating employment but not helping Mexico to establish a solid industrial
basis. The productive structure of the country changed during the 1980’s and 1990’s, and GNP grew at rates near 3% a year during the same period due to the export oriented economy and the NAFTA agreement.

Table 1. Mexico GNP Structure by Sector and Average Rate of Growth (1980-1999)

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<tbody>
<tr>
<td>Agricultural and Fishing</td>
<td>9.0</td>
<td>9.6</td>
<td>5.3</td>
<td>4.6</td>
<td>— 0.9</td>
</tr>
<tr>
<td>Mines</td>
<td>3.2</td>
<td>3.7</td>
<td>1.2</td>
<td>— 4.6</td>
<td>— 6.9</td>
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<tr>
<td>Manufacturing Industry</td>
<td>24.9</td>
<td>24.5</td>
<td>19.7</td>
<td>3.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Construction</td>
<td>5.5</td>
<td>4.7</td>
<td>4.0</td>
<td>— 4.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Electricity, Gas and Water</td>
<td>1.5</td>
<td>1.9</td>
<td>1.5</td>
<td>2.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Commercial, Restaurants and Hotels</td>
<td>25.7</td>
<td>23.8</td>
<td>19.3</td>
<td>6.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>7.5</td>
<td>7.6</td>
<td>10.2</td>
<td>3.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Financial and Insurance Services</td>
<td>9.8</td>
<td>10.5</td>
<td>14.4</td>
<td>1.7</td>
<td>8.6</td>
</tr>
<tr>
<td>Personal and Social Services</td>
<td>14.2</td>
<td>15.2</td>
<td>18.9</td>
<td>1.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Total</td>
<td>2.9</td>
<td>3.2</td>
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Source: Banco de Mexico, Informe Anual and INEGI, Sistema de Cuentas Nacionales, Mexico.
Even with the NAFTA agreement and membership into the OECD, Mexico showed great income disparities and persisting poverty in the southern states of the country. However, the consequences of the 1995 financial crisis and the subsequent economic recession (fall of GDP by 6.2%) were not felt as bad in Mexico due to NAFTA. GDP growth was above 7% in 2000, although it took until 1998 to reach a level of per capita income comparable to that of 1994.

The Mexican economy has been transformed to a trading and global nation following the new world dynamics thanks to the NAFTA agreement and the free trade agreements that Mexico signed with the European Union and Central American nations. Mexico's main trade partner is the U.S., with around an 80% share of total trade in 2000 and a growth of 5 percentage points since the pre-NAFTA situation. Mexico’s largely U.S. exports-led growth is clearly dependent on the United States economic situation. The EU comes second in terms of economic ties with 6% of total trade in 2000. At the end of 2000, Mexico ranked 24th among EU trade partners. After the 1995 recession, EU-Mexico trade in both directions has constantly increased. EU exports have more than tripled since 1995, while imports have more than doubled. Growth has accelerated during 2000, in particular during the months following the entry into force of the FTA, with an increase of exports of 32.9% and of imports of 48.5%. EU has a substantial trade surplus with Mexico: exports are almost double the imports. Other important commercial partners are Japan and Canada (both with about 2.2% of total trade). Canadian access to the Mexican market continues to improve under the terms of NAFTA. Japan has also showed interest in signing a trade agreement with Mexico. Mexico and Australia have signed a declaration in a recent meeting of the World Trade Organization to open the way to reach a future agreement to promote and protect investment in their countries. The future outlook for Mexico is towards the complete opening of the economy in terms of trade. Mexico and the
United States seek to expand the trading agreements to all 34 countries in North, Central and South America, plus the Caribbean nations (except Cuba), in a trade agreement known as the FTAA (Free Trade Area of the Americas). The FTAA would create a single trading block, from Alaska to the Patagonia that will rival the European and Asian blocks. The FTAA is expected to compete with an East Asia free-trade zone that could come into place in 2010. The global trend in the 21st century of forming strategic trade blocs is increasing, given the trading success of the EU and NAFTA, as well as the two-year stalemate in World Trade Organization efforts to set up a global free-trade regime. Mexico’s membership into the 21 country membership of APEC will also mark the trend towards the ambitious goals of liberalizing trade by 2010 for industrial members and 2020 for member developing members. Mexico is deeply committed to WTO new round negotiations and can be expected to play a key role in the future, as a country that will link ties between developed and developing Members.

But the opening up of the economy has also brought a worsening of the conditions of inequality and disparity in Mexico. While it is argued that thanks to these agreements there exists an indisputable economic, increasing trade and social development, at the same time, there is also recognition that there are great disparities between some regions in Mexico. Mexico has suffered a rise during the last decade of the number of people who live in extreme poverty. From 20 million poor existing in 1994, to 50 million by the year 2000. After the Mexican Crisis of 1994, and the decline of 6.2% in the GNP in 1995, the Mexican economy grew at rates of 5.1% during the years 1996 to 1999. Even with the decline in gross domestic product, employment actually rose slightly. Díaz-Bautista (2003) shows that unemployment remained low in Mexico even in the middle of the Mexican crisis. The impact of the crisis, both in severity and duration, shows up also in the real wages trend. Real wages fell substantially in 1995. But while gross domestic
product rose sharply in the following years, real wages remained below pre-crisis levels through 1998.

In terms of regional growth in Mexico, we observe a relative process of catching-up among the Mexican regions in terms of income per capita during the last twenty years. Nevertheless, the conditional convergence analysis qualifies the previous result given that, although the existence of a catching-up process is present in the differences between regions at the national level, we observe sufficiently differentiated behaviors for quite a number of regions in Mexico that suggest the possibility of different equilibrium tendencies in the long-run for the Mexican States. The tendencies in regional growth in Mexico show advance regions with growth in terms of income and productivity, which are above the mean of the Mexican states, such as Chihuahua, Baja California and Mexico City. The economic growth of the Northern region has been driven in part by the Maquiladoras established in those states since 1966. United States firms, particularly in electronics, textiles, footwear, and toys, and later in auto parts-responded enthusiastically to the lure of cheap labor in the Maquiladoras. Maquiladoras became a major stimulus to growth in Texas border cities such as El Paso, Eagle Pass, Laredo, McAllen, and Brownsville, in terms of both retail trade and jobs from warehousing and distribution. During the Texas recession of the 1980s, the border cities were the most notable growth spots in the state. This fact in turn prompted additional efforts by the state government and border communities to capture manufacturing jobs to provide the components needed by the maquiladoras. Yet the maquiladora industry has an image of a fly-by-night sweatshop system that exploited powerless young Mexican women and left most of the unemployed former braceros and other male jobseekers unemployed, and a direct cause of job loss in United States manufacturing. In spite the enhancement of short-term economic growth, the Maquiladoras do not have a link to the
production processes from the host country’s needs, and respond exclusively to the needs of the Multinational Corporations that set them up. Maquiladoras have provided employment with low wages to over a million people, just on Mexico’s northern border. But the benefits of maquiladoras for the economy as a whole in the long run are practically nonexistent for the northern states.

Some states in Mexico can be classified as dynamic intermediate regions, which show an important dynamism in terms of productivity and employment such as the states of Guanajuato and Puebla. The dynamic intermediate regions reflect an adequate process of adaptation and a strategy of growth based on dynamic activities with some of the branches of manufacturing and the third sector in general. There are also declining regions which correspond to the southern periphery with a low level of industrialization, low human capital indicators and problems due to the lack of economic activity. The states of Guerrero and Chiapas are representative of that group. The Puebla-Panama Plan is a regional economic growth plan that has the intention of generating new public policies for the human development of Mexico in the struggles against poverty, promotion of investments and productive developments. The Plan also envisions the fulfillment of strategic investments in the infrastructure that will permit the region to communicate more effectively and take advantage of the possibilities inscribed in the Mexican free trade agreements. It also mentions the possibility of new prices and tariffs on goods and services produced by the public sector, and programs to ensure a sustainable development and economic growth of the southern region of Mexico and Central America. There are eight components of the regional economic growth plan which include sustainable development; human development; the prevention and mitigation of natural disasters; tourism promotion;
enhancement of trade; highway integration; energy interconnection and integration of telecommunication services.

Public policies in Mexico must encourage investment in human capital and regional openness to enhance and speed up the economy's growth rate. Mexico’s human capital economic policy should be complemented by financial stability, greater openness and expansion of external markets, increase productivity and income, promote deregulation and competition, maintain the low level of demographic growth, stimulate internal savings, and increase the growth in the resources that the different government entities allocate to the formation of human capital.

Demographics will be an important factor that influences the economic growth of Mexico. The Mexican population increased from approximately 75 million people in 1984 to 97 million in 1999. By the year 2000, some estimates of the total population in Mexico were close to 97.5 million with a per capita GDP of 5,100 USD. Mexico City, with about 20 million people, is one of the world’s largest cities. Mexico can be described as a family planning success story. In 1972, Mexico had a total fertility rate of 6.2%, and the population was growing 3.5 percent a year, the fastest population growth rate in the world. Recent estimates of the population growth in Mexico are close to 1.3%. When we make comparisons for North America, Canada’s population was 31 million in 2000; Mexico’s was 97.5 million; and the United States’ population was about 281 million. While population annual growth rates between 2000 and 2010 for North America are expected to be (1.0 percent) for Canada, (1.1 – 1.2 percent) for Mexico, and (0.6 percent) for the United States.

Mexico is the most populous Spanish-speaking country in the world. More than half of the population lives in the central part of the country. Seventy-five percent live in cities, due to migration from rural areas and other areas lacking job opportunities to the industrialized urban
centers and border communities in Mexico. Mexico has become an urban society in the last thirty years and it is not expected to change in the next century. It is expected that the population of Mexico will increase to approximately 136 million by the year 2020. The Mexican people can expect to live longer now (from 58 years of age in 1960 to 72 years of age in 1998) and they are more likely to be literate (91% literate in 1998). The Human Development Index, which is based on these factors, plus real income, over the 1995-1998 period ranks Mexico in 55 out of 174 countries. The mortality rate in Mexico (per 1,000) went down from 134 in 1960 to 34 in 1998. The access to water supply for the period 1990-1998 was around 85%. The population pyramid in 2000 has an extremely sharp profile, whose wide base is made up of disadvantaged people living in poverty, which unleashes the drive for migration. In 2000, 40 percent of Mexican residents were in the labor force.

Mexico’s population doubled between 1970 and 2000, from 53 million to 97.5 million; while the number of Mexican-born US residents increased more than ten times, from less than 800,000 to about 8.5 million in the same period. During the 1980’s and 1990’s, changes in Mexican farm policies helped to speed up migration, at the same time that the U.S. economy created millions of jobs that could be filled by Mexican migrants. More than half of those who immigrate to the United States from Mexico return and settle in Mexico within the next ten years. By the year 2020, the Hispanic population of the United States will be around 52 million and by the year 2050, 96 million. Hispanics are projected to be a majority in California and Texas by the year 2015. The population of Mexican origin living in the United States in 2000 is 20 percent of Mexico's total population.

The Consejo Nacional de Población in Mexico estimates that the total population of Mexico will reach 131.6 million in 2050. While the United States Census Bureau's projection of the Hispanic
population in the United States is close to 96 million, with 65% of Hispanics having a Mexican origin. The population of Mexican origin in the United States in 2050 will be almost half of Mexico's total population. The US and Mexican policies toward migration, will help to determine how fast the Mexican-born United States population rises. In the past few years, Mexico has faced a process of accelerated urbanization with an associated creation of new metropolitan areas, one megalopolis and several urban corridors. By 2001, there were 39 metropolitan areas with a population larger than 100,000 inhabitants, which account for 46% of the total country's population. The number of metro areas with more than 100,000 inhabitants will increase in the coming decades. New urbanization models for developing cities in Mexico have to be implemented in the coming years to sustain the increasing population. In Mexico, the growing number of people between 15 and 24, will increase the need of educational systems, infrastructure, and job access. Over the long term, the country needs even faster growth to create jobs for the backlog of the unemployed and the 1 million youths who enter the job market annually. Most likely, Mexico’s population growth will fuel migration pressures. The Mexican government will struggle to provide social welfare, housing and health services to an aging population. To overcome the historical deficit of social services and housing and to be prepared for future needs, new programs have to be established with the participation of the three levels of government and other participants including the social and the private sectors. Urban development policies should promote a more balanced economic and social growth between cities through a land use planning strategy and actions to improve infrastructure, utilities and services in strategic cities and states.

Mexico’s economy will become more dependent on the United States economic cycle in coming years. An example is the recent economic cycle in the Mexican economy, which experienced a
deeper than expected deceleration in the first half of 2001, because of slower growth in the international economy, especially in the United States. The tight fiscal and monetary policies has maintained Mexico’s growth rate in positive terms. The recent fiscal budgets in Mexico can be described as modest, with President Fox’s administration determined to reduce the fiscal deficit to less than 0.65 percent of GDP. The trade dependency on the U.S will drive Mexico's GDP growth in coming years. In the next decade, almost 90% of Mexico's exports will move into the U.S. However, the Mexican government has been encouraging trade and investment from the European Union to help offset future effects of U.S. economic activity.

It seems that gross national product per capita has somewhat increased in Mexico during the 1990’s. The value of Mexican GNP for the year 2000 was estimated around $580 billions of USD. Income per capita has increased during the past few years, from a level of GNP per capita of $ 3,923 USD in 1995 to around $4,400 USD in 1999, and an expected income per capita in 2001 of around $6,295 USD. However, income distribution has worsened. More than half of the population lives in poverty. The only sector of the Mexican economy that is showing real productivity growth is the goods-producing (manufacturing) sector. The increased productivity expected as the result of the 1990s’ massive liberalization and Internet computerization appears to be an illusion. It is important to identify the factors that have contributed to the recent weakness of the Mexican economic growth recovery like international volatility, the weakness of the U.S. recovery, and the absence of structural reforms in Mexico. International volatility and the U.S. economic cycle can be classified as short-term factors from the external environment, while the structural problem could be considered a long-term factor. The effects of the international volatility plus those derived from the uncertainty about the structural reform materialized in a reduction of capital inflows from abroad. The current administration has
implemented a consistent macroeconomic policy. However, economic activity did not take off in the last few years as anticipated. By 2003, Mexico shows a high interdependence with the United States economy, which serves as a shield for any emerging market crises in Mexico but doesn’t promote the growth process of the economy. The long term regional economic growth program should focus on increasing income per capita, obtaining sustainable development, increasing human development, attracting private investment, expanding Mexico’s infrastructure and solving the income distribution problems. Achievement of long-term growth will be guided by medium term goals like the inflation target. In order to reach the low inflation targets by Bank of Mexico, a strict and tight monetary policy discipline will have to be enacted for the rest of the Fox Administration.

For the period 2020-2025, Mexico’s GDP is expected to grow at an average annual growth rate of 2 to 3 percent, while the annual rate of population growth will be from 1.2 to 1.4%. With those assumptions, Mexico will double the current level of income per capita in the year 2025. However, the level of income per capita will not reach the current level of income per capita of the United States or Canada. In 2000, Canada’s GDP (constant U.S.$1990) was $749 billion, compared to $371 billion for Mexico and $8 trillion for the United States. GDP annual growth rate projections between 2000 and 2010 for North America are: Canada (2.5 percent), Mexico (2.9 percent), and the United States (2.9 percent). Between 2000 and 2010, per capita GDP is forecast to increase by 12 percent in Mexico, 16 percent in Canada, and 25 percent in the United States. By 2010, North American per capita GDP will reach about $27,300 per person (constant U.S. $1990), up 80 percent from 1980 levels. The North American level of per capita GDP in 2010 will not be reached by Mexico even by the year 2025. By the year 2025, Mexico will remain in the ranking of middle-income countries.
Table 2. Mexican Economic Outlook 2000-2025

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<tr>
<td>Population in 2000</td>
<td>98 million</td>
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<tr>
<td>Expected Population in 25</td>
<td>140 million</td>
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<table>
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<th>Annual Rate of Growth of the Population</th>
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<tr>
<td>Average (1994-2000) 1</td>
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<tr>
<td>Expected Average (2000-2025)</td>
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<tr>
<td>Expected Life expectancy (2025)</td>
</tr>
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| Income per capita (2000) 1          | $6,295 USD        |
| Expected Income per capita (2025) 3 | $12,795 USD       |

Sources: 1. Annual Report by the World Bank in the World Bank website. 2. IDB.
3. Assuming an annual economic growth rate of 3% and an annual rate of growth of the population of 1.4% a year for Mexico from 2001 to 2025.

The projected average growth in per capita income in Mexico will be over 2 percent per year between 2003 and 2025. Growth in income per capita will be condition upon the implementation of deep structural economic reforms. Mexico’s growth will be fueled by demographics, accelerating global trade, knowledge-based technologies, and the integration of capital markets. While economic growth will bring increasing wealth to some states in Mexico, income distribution will remain at critical levels. Growth will be uneven in Mexico; not every state will benefit equally from national growth. Some states may lose out in the growth process. New economic centers of power will rise, which will rival the resources available to poor states in Mexico. Economic growth will carry new demands on infrastructure in Mexico, such as water,
energy, communications, waste disposal, urban transportation, public health, housing, and education. Failure to accommodate the demands of infrastructure will trigger a process of growing dissatisfaction with the government.

Mexico’s demand of energy sources will also increase in the coming decades. A growing population and per capita income will drive the demand for more energy, particularly as the Mexican economy somewhat expands. Technological advances, if implemented, can meet this demand. Historically, Mexico has been a net energy producer. Mexico, with 24 billion barrels, has the largest conventional proved crude oil reserves in North America, followed by the United States (22 billion barrels) and Canada (4.4 billion barrels). At the end of 2000, North America had about 20 million barrels per day (MMbbl/d) of crude oil refining capacity. In January 2002, Mexico exported 48.3 million barrels of oil to the United States, more than any other nation. Mexico, along with Canada, Saudi Arabia, and Venezuela continues to be among the top four suppliers of oil to the United States. However, Mexico’s energy needs will increase in coming years. Mexico's average electricity demand growth is projected to grow at a 6% annual rate through 2010. Mexico's natural gas demand is about 4.3 billion cubic feet per day. Petroleos Mexicanos (PEMEX), Mexico's government-owned oil and gas company, estimates that natural gas demand will rise to 9 billion cubic feet per day by 2010, increasing natural gas imports in Mexico. Mexico exports to the United States about 1 percent of the electricity demand needed in the United States. Almost all electricity imports in the United States come from Canada. Most thermal power generation plants being built or planned in Mexico will depend on natural gas as a fuel source. Liquified natural gas (LNG) terminals are planned in Mexico in order to supply Mexican and U.S. consumers. However, in terms of Energy, Mexico will face a complex environment in coming years. Unless important changes in the Constitution are made in the
power and oil sectors to permit foreign investment, the Mexican energy sector production and generation will start to plunge. Oil production (crude oil and natural gas liquids) in Canada and Mexico will grow from 2003 to 2010, while the US production forecast will be lower than the production in the year 2000. Canadian oil output is expected to reach 3.7 MMbbl/d, Mexican oil production is projected at around 4.6 MMbbl/d, and US oil production is forecast at 7.5 MMbbl/d. Mexico’s oil producing ability will peak by the year 2010, and it will decline by 2025. By the year 2030, Mexico will become a net energy consumer and will have to import oil from other countries. In the same way it imports natural gas. Natural gas production in North America will grow significantly through 2010. Mexican gas production will double by 2010, to 3.2 Tcf, while Canadian and U.S. gas production will grow to 7 Tcf and 24 Tcf.

To enhance the development of the Mexican energy infrastructure, the government will have to foster energy development by complementary private participation in areas such as generation, cogeneration and self-supply electric plants; new mechanisms of private participation in the exploration and production of non-associated natural gas; maritime terminals for LNG; energy savings DSM programs; renewable energy sources; the expansion of the natural gas pipeline network; new participation mechanisms in the LPG market and natural gas and electricity border interconnections to facilitate the development of the North American energy market and Southern Mexico with Central America. Improvements in the efficiency of solar cells and batteries will result in greater use of these and other renewable energy resources in Mexico, but they are unlikely to significantly affect Mexican reliance on fossil fuels during the period 2003-2025.

Despite important reforms in the Mexican agriculture sector and the NAFTA agreement, Mexico will continue to rely on increased imports in the period 2010-2025 to feed its growing
population. The problem of feeding an increasing population in Mexico is not the setbacks in the agriculture sector, but rather political stability, transportation and distribution. Food production is likely to keep pace with overall demand when imports are maintained. A new agricultural revolution can be expected in Mexico in the coming years. Major shortages will be man made in the period 2010-2025. Serious pockets of poverty will put people in poor states at risk of death from disease and starvation. Rich states will have higher unemployment rates and higher wages. The Mexico City Metropolitan area will be increasing the demand for convenient, high quality and safe foods. Imports of foreign brand goods will grow, due to consumer sophistication and increased exposure to the American and European society and media. Major supermarket chains will continue having a growing presence in the next few years.

In the area of Communications and Transportation, Mexico has cancelled the plans to build a new international airport in the Lake Texcoco Area, just east of Mexico City. The new airport was expected to replace the current double-runway, 50 year-old airport on the east side of Mexico City. The decision to give up on the airport project is a major defeat for the current administration. The plan, which was one of the first projects announced by the current administration after coming to power two years ago, was to replace Mexico City's present international airport to meet future growth in air travel. The current airport can keep handling increasing volumes of air traffic for seven to eight years, but an alternative project has to be presented before December 2006.

In terms of the savings and banking model, the Mexican government designed the banking model for BANSEFI (Banco del Ahorro Nacional y Servicios Financieros) to promote savings for low income people. BANSEFI will serve Mexico's lowest income savers and borrowers by
providing new retail bank facilities for millions of savers that are not serviced by the large financial institutions in the country. More than 600 branches and 300 popular savings and loan banks, credit entities and cooperatives will serve up to 12 million Mexican customers by 2010.

The Banking System will remain in foreign capital control due to the lack of Mexican capital investors. Foreign direct investment will remain important in Mexico, as shown in 2001 by the $25 billion dollar investment, which included the CitiBank purchase of Banamex. The Banking services in the next 20 years will be set towards providing a customer-focused, user-friendly banking system to those most in need by providing reliable and affordable financial services. Mexico has to introduce newer systems to promote Mexicans who work in the US to send their money back to the country in greater amounts. By 2001, Mexican nationals in the United States sent more than nine billion dollars to their families in Mexico.

In 1995, congress passed the new social security law, which introduced the New Mexican Social Security System. A set of laws was also passed in 1996 in order to privatize the management of the country’s pension system. The operation of investment management companies (AFOREs) was introduced. The basic difference between the old pay as you go system and the reformed old age security system is that new entrants in the system may pick between the AFORES and IMSS retirement plan with a reduced government contribution under the new system.

The Mexican social security system (IMSS) faces major challenges in the coming years. The lack of hospital infrastructure, medicines and medical staff are a result of the poor financial situation that the health system is currently facing. Some analysts estimate a lifespan of less than
8 years for the Mexican social security system. It requires large amounts of investments, better administration, less corruption and a new pension system. The retirement age has to be increased in the coming years in order to save the system. The increasing demographic pressures and the ageing of the population will also present new problems for the social security system. By 2025, the percentage of the population over the age of 65 will double and the cost of medical services will increase more than three times. Between 1970 and 2050, the proportion of the population over sixty will rise from 6.1 percent to 24.35 percent. The increasing number of people with cancer, AIDS, diabetes and cardiovascular problems will absorb much of the health budget in the country. In 2001, the adults living with HIV/AIDS in Mexico was estimated to be 150,000 with a 0.3\% adult prevalence. Between 1995 and 2025 the number of the adult population affected by diabetes in Mexico is projected to grow by 300\%. The increase will occur because of population ageing and growth, as well as from obesity, unhealthy diets and a sedentary lifestyle. These latter factors are closely associated with urbanization and industrialization. In 1995, 4 million people had diabetes in Mexico. By 2025, if current demographic projections hold, Mexico will have 12 million people affected by diabetes. The age structure of the diabetic population will change in 2025, with the majority of diabetic persons in the 45-64 year age group. Major reforms for the health sector include guaranteeing universal health coverage, separating finance and provision of care, diversifying sources of health care provision, promoting competition between private sector health service providers in cities and towns, and encouraging cooperative schemes for financing and service delivery in rural areas.

2. Economic Integration

By the passage of NAFTA, the economic linkages change to the foreign markets and it becomes profitable to relocate the industry close to the international ports and borders with the United
States or to the foreign markets. Since 1994, the export-oriented manufacturing sector started to be the main economic growth engine. In terms of trade growth, NAFTA allowed for an increasing integration between Mexico and the U.S. Historically, the U.S. have always been the main trading partner of Mexico. The integration process has been particularly relevant in the case of Mexican exports, which, added to their increasing orientation toward the U.S., increased from 34 billion in 1991 to around 150 billion in 2000. Industries find it optimal to vertical de-integrate to save the costs of urban agglomeration. After the passage of NAFTA, manufacturing is mainly localized in the Northern Border of Mexico.

NAFTA also contributed to the integration of several Mexican and U.S. sectors. A few sectors of Mexico’s economy have become of critical importance to increasing the competitiveness of the U.S. manufacturing sector. The electronics, automobile and auto parts sectors, as well as garments and textiles sectors, represent more than 70% of total Mexican exports and have become an integral part of the U.S. economy. These export-oriented Mexican activities in North America are based on cheap labor force and geographical proximity. Thus, NAFTA integration resulted in an important growth of intra firm and intra-industry trade.

By creating a new legislation, combined with a nondiscriminatory treatment and access to the North American market, the NAFTA agreement promoted the installation of transnational corporations in the region that centered their production and investment opportunities within the countries of North America. NAFTA was controversial in the United States due to the new dimension of economic integration with Mexico. The signing of an agreement with a developing country with low wages magnified the related questions of labor loss and reduction of wages in the industrialized country. The NAFTA agreement is the first example of a comprehensive economic integration between an industrialized country and a developing country. The breach of
economic development between the United States on the one hand, and Mexico on the other, is much greater than the breach of the original members of the European Community with the recent members of the periphery like Spain, Portugal and Greece. After a unilateral reduction of tariffs and the elimination of the import permits, Mexico became a member of the GATT in 1986 (now WTO), and a member of the OECD in 1994. During the first half of the Fox administration, Mexico had 11 free trade agreements, which covered a total of 32 countries that produced 60% of the world income and a preferential access to a potential market of over 870 million consumers. The impulse caused by the opening of the economy and the signing of the NAFTA had a positive effect in the growth of regional and municipal northern border economies of Mexico. The maquiladora sector is one of the main motors of economic growth in the Northern Border of Mexico. In almost all the regions of the North Border of Mexico, a process of economic growth is observed, and the impulse due to the commercial opening is apparent. The exporting sector is a one of the most dynamic sectors of the Mexican economy. Since the signing of NAFTA, the growth of exports has contributed to at least half of the growth of the national product of Mexico. More than half of the 3.5 million jobs created in Mexico since August 1995 are related to the exporting sector and to activities linked with foreign direct investment. By the year 2000, the companies that exported more than 80% of their production, had 62% higher wages than other types of companies. In that same year, the maquiladora sector had wages 5 times greater than the average national minimum wage. Similarly, Mexico has diversified its base of export. The regional proximity of the NAFTA partners is a factor that increases the dynamic performance of North America in terms of economic growth. By the year 2000, the members of NAFTA carry out one third of the total trade of the region. Similarly, NAFTA has increased the trade flows between Mexico, Canada and the United States. During the last few
years, Mexico’s trade with its NAFTA partners tripled, getting to be near $275 trillion USD in 2000.

Trilateral trade in NAFTA reached 659 trillion USD in 2000, or 128.2 % more than in the year of 1993. From 1994, commercial trade between the member countries of NAFTA increased at an annual average rate of 11.8%, whereas the worldwide annual average rate of growth in trade was around 7%. The opportunities of trade for Mexico and Canada within NAFTA have increased in the last few years. Mexico became the fourth more important commercial partner for Canada, whereas the bilateral commerce between Mexico and Canada tripled, reaching 12 trillions USD in 2000. Mexico is the third most important buyer of Canadian products. Cornett (2001) has shown that the integration of the intra industry trade is extremely high within NAFTA and shows how the region integrated not only in commercial terms but also in terms of the productive systems of the region. The NAFTA region has created new opportunities of investment and trade for the companies of all 3 countries. In the NAFTA region, 50 % of the direct foreign investment is between trade partners. For Mexico, the United States is the main source of direct foreign investment. From 1994 to 2000, U.S. companies invested 40.3 trillion dollars, whereas Canada invested near 2.8 trillion dollars.

NAFTA has also contributed to the economic growth of the northern border. The Northern Border of Mexico contributes to more than 20% of the National Product of Mexico. The asymmetry between the product of the northern border regions of Mexico and the United States is also important. In 1994, the gross national product (GNP) of the United States is approximately 18 times greater than the GNP of Mexico. In some border regions like in the County of San Diego the gross regional product was almost 14 times greater than the one in the
Municipality of Tijuana by 1996. Although the asymmetry of Mexico and the United States is less clear in the border regions, the inequalities are still important.

In spite of the economic asymmetry between the Northern Border of Mexico and the rest of the country, the border economy had a great dynamism since the signing of NAFTA due to the development of key sectors like the industry assembly plant sector, commerce and tourism. The development of the industry assembly plant in the Mexican border cities promoted the rate of growth of the industry and the regional product during periods of expansion and economic contraction.

There has been an increase in the concentration of maquiladoras in the border area. By 1995, more than 85% of the maquiladora workers were employed in one of the six Mexico-U.S. border states: Chihuahua, Baja California Norte, Sonora, Coahuilla, Leon and Tamaulipas. In 1995, the cities of Ensenada, Tecate, Tijuana and Mexicali, all located in Baja California Norte, had a firm arriving or expanding at a rate of more than one a week.

Since the passage of NAFTA, FDI reached record levels in Mexico. From 1994 to 2001, FDI increased from 15,045.2 to 25,221.1 millions of dollars.

Between 1994 and 2001, Mexico received more than US$ 10 billion in new and long-term FDI in plants and equipment in the automotive industry. The manufacturing facilities established in Northern and Central Mexico have contributed to the modernization and economic growth of those regions. Highly specialized clusters have also been developed around the major auto industrial plants through the establishment of hundreds of new regional suppliers that promote vertical integration and strengthen supply chains. Institutional features of the host country and economic factors such as the trade and investment regime, the degree of openness, and the
characteristics of the labor force such as education play a role in the regional investment decision.

3. Conclusions

It is important to mention that Mexico's export growth rate of 20% a year in recent years is unlikely to be sustained in the period 2003-2025, particularly if the United States does not grow as rapidly as it did in the latter 1990s. Ever-growing exports to the United States in those years were the main engine for Mexico's economic growth, but this engine is likely to slow for the period 2003-2025, mainly due to China’s increasing export and commercial competition in the U.S. market. Structural reforms will have to be implemented to enhance economic growth in Mexico. These reforms include making the labor market more flexible, a better fiscal reform, simplifying investment in electricity generation, opening natural gas exploration to private investors, increasing private investment in the oil sector, reforming the telecommunications structure, and altering the judicial system, especially as it applies to mercantile law. Other important structural elements that prevent economic growth are the low savings rate, the large reliance on capital inflows, and the growing lawlessness and corruption in many Mexican cities.

Economic growth and integration, consolidation of democracy, regional cooperation, and greater emphasis on multilateral organizations will be part of Mexico's efforts in the next 20 years. The political environment will continue to influence the economy in Mexico. Mexico will continue to be threatened by narco trafficking and international organized crime and terrorists. These enterprises will retain the capacity to undermine government institutions, and in some cases, such as in northern Mexico, supplant the key functions of local government.
Political power will become more diffuse as the Institutional Revolutionary Party (PRI) and the center right PAN party lose dominance and a multi-party system emerges. The race for Mexico's presidency will continue to be done by traditional populists, the traditional political dinosaurs, the middle class, the entrepreneurs and the technocrats, who have controlled the political arena and economic policy since the mid-1980’s. Mexico is expected follow a process of economic divergence in the coming years. The northern states will become increasingly integrated with the US economy, reflecting new foreign direct investment, substantial infrastructure improvements, and slowly expanding free trade arrangements with the rest of the world. States in the south will continue to lag in job, education and income growth. The Mexico of the year 2025 indeed looks exciting and somewhat more prosperous, but getting there will likely involve a great economic struggle to overcome the likely political and economic upheaval.

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