Restoring Mexico’s International Reputation

Roberto Newell G.
WWICS-Comexi
May, 2011
**Today’s presentation**

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<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Perceptions are negative</strong></td>
</tr>
<tr>
<td>2</td>
<td>All not well with Mexico</td>
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<tr>
<td>3</td>
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</tr>
</tbody>
</table>
## Perceptions are negative

### Country Brand Index: 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Mentions (K)</th>
<th>Grade</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>146</td>
<td>59</td>
<td>7</td>
</tr>
<tr>
<td>Brazil</td>
<td>105</td>
<td>65</td>
<td>14</td>
</tr>
<tr>
<td>India</td>
<td>922</td>
<td>56</td>
<td>39</td>
</tr>
<tr>
<td>Russia</td>
<td>297</td>
<td>40</td>
<td>171</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td><strong>113</strong></td>
<td><strong>21</strong></td>
<td><strong>196</strong></td>
</tr>
</tbody>
</table>

Source: East-West Communications, 2010
Wasn’t always so…

“The men running Mexico are probably the most economically literate group that has ever governed any country anywhere.”

“…also great salesmen. They have convinced the world that Mexico is on the verge of an economic miracle”

*The Economist*

*December 14, 1991*
Perceptions are negative

NY Times less interested in Mexico...

Source: Newell, 2011
Perceptions are negative

...focused on reputation damaging news

Source: Newell, 2011
Perceptions are negative

Same with WSJ...

Source: Newell, 2011
Perceptions are negative...whose focus has also changed to crime and migration

Source: Newell, 2011
Perceptions are negative

Reforma headlines also focused on crime...

Reforma's headlines
April 12-May 11, 2011

43%

57%

Crime
All else
Gary Larson foresaw this; we have become Tyrannousaurus Mex...
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2 All not well with Mexico

Labor productivity stagnant

Figure 1. Evolution of three indices of real income in Mexico, 1981=100. GDP per capita and GDP per worker. Source: Peña, Pablo A. Aggregate Shocks and Investment in Human Capital: Evidence on Postsecondary Schooling during the Lost Decade in Mexico. 2011.
## All not well with Mexico

Factionalism explains low productivity growth

<table>
<thead>
<tr>
<th>Reform</th>
<th>PAN</th>
<th>PRD</th>
<th>PRI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity (1997)</td>
<td>x</td>
<td>x</td>
<td>✓</td>
</tr>
<tr>
<td>Fobaproa (1996)</td>
<td>x</td>
<td>x</td>
<td>✓</td>
</tr>
<tr>
<td>Fiscal (2002)</td>
<td>✓</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Petroleum (2008)</td>
<td>✓</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Fiscal (2009)</td>
<td>✓</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Security (2011)</td>
<td>✓</td>
<td>?</td>
<td>x</td>
</tr>
<tr>
<td>Reforma del Estado (2011)</td>
<td>✓</td>
<td>✓</td>
<td>x &amp;</td>
</tr>
</tbody>
</table>
After a period of improvement, violent crime has risen.

Source: U.N., PGR, estimates by author
All not well with Mexico

But, Mexico not homogeneous

Murders per 100 K population in 2010

Source: U.N., with data from PGR
All not well with Mexico

Nor is it the worst...

Intentional homicides per 100K population

Source: U.N., Interpol, various national agencies, most recent statistic, compiled in Wikipedia

Other countries:
- Salvador 71
- Jamaica 60
- Guatemala 52
- Venezuela 49
- Trinidad 43
- Colombia 35

Source: U.N., with data from PGR
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Truth and perceptions are misaligned

BRICS growing more rapidly

GDP growth (annual rate in current $US)

Source: World Bank. World Development Indicators
Truth and perceptions are misaligned

China and India won’t catch up to Mexico soon

Source: IMCO using IMF World Economic Outlook data base
3 Truth and perceptions are misaligned

Mexican households consume much more

World Bank. World Development Indicators
<table>
<thead>
<tr>
<th>Ranking (out 183)</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of doing business</td>
<td>129</td>
<td>120</td>
<td>133</td>
<td>89</td>
<td>51</td>
</tr>
<tr>
<td>Starting a business</td>
<td>126</td>
<td>106</td>
<td>169</td>
<td>151</td>
<td>90</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>113</td>
<td>82</td>
<td>175</td>
<td>180</td>
<td>37</td>
</tr>
<tr>
<td>Employing workers</td>
<td>138</td>
<td>109</td>
<td>104</td>
<td>140</td>
<td>136</td>
</tr>
<tr>
<td>Registering property</td>
<td>120</td>
<td>45</td>
<td>93</td>
<td>32</td>
<td>99</td>
</tr>
<tr>
<td>Getting credit</td>
<td>87</td>
<td>87</td>
<td>30</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>73</td>
<td>93</td>
<td>41</td>
<td>93</td>
<td>41</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>150</td>
<td>103</td>
<td>169</td>
<td>130</td>
<td>106</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>100</td>
<td>162</td>
<td>94</td>
<td>44</td>
<td>74</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>100</td>
<td>19</td>
<td>182</td>
<td>18</td>
<td>81</td>
</tr>
<tr>
<td>Closing a business</td>
<td>131</td>
<td>92</td>
<td>138</td>
<td>65</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Doing Business Report, World Bank, 2010

3. Truth and perceptions are misaligned
Truth and perceptions are misaligned

Population projections favorable

Accumulated population growth: 2050

- Mexico
- China
- India
- Russia
- Brazil

Source: Census Bureau, International Statistics, 2011*
Truth and perceptions are misaligned

Life expectancy also better

Mexico
China
India
Russia
Brazil

Source: Nationmaster, Statistics, 2011, HALE taken from OECD
Truth and perceptions are misaligned
As are schooling levels, compared to most BRICs
In sum, this is best Mexico ever

In this context ...
Truth and perceptions are misaligned

Subs of multinationals are doing well...

Operating profits* from Mexican subsidiaries: 2010

- Kimberly Clark
- BBVA
- Procter & Gamble
- AMEX
- Walmart/Walmex
- Citigroup

*Operating profit used to eliminate effects of debt and taxes
Source: corporate 10Ks, author’s estimates
Truth and perceptions are misaligned

...as are domestic corporations

Operating profits / Total assets: 2010
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4 Costs of bad reputation are high

FDI not growing as expected

FDI inflows per capita

Source: IMF, International Financial Statistics, author’s estimates
4 Costs of bad reputation are high

Investment flows possibly affected by rising crime rates

Source: Serra Puche, 2011
4. Costs of bad reputation are high

Triple whammy to tourism

- “Great recession”
- Swine flu
- Risk perceptions
  (Mexico brand drops 11 places)*

15% revenue drop in 2009

Source: INEGI, BOP statistics
4 Costs of bad reputation are high

Bad luck contributed to this outcome
Costs of bad reputation are high

Other significant effects

• Loss of confidence in democracy (Latinbarometro, 2011)

• Loss of political support to current administration (Mitofski, 2011)

• Politization of war on crime (May protest marches)

• Loss of talent
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Need to act on two fronts simultaneously

Future reputation

1. Real measures
   - Reforms
   - Execution
   - Resources
   - Continuity
   - Committed leadership

2. Influence strategy
   - Clear mission
   - Targeted messages
   - Institutional skills
   - Quality staff
   - Metrics
   - Follow-up

Time to fix this
Experiences to draw on

• Lobbying policy decision makers
  – Israel
  – Canada
  – Korea

• Communication strategies
  – Brazil
  – China

• Soft power deployment
  – Chile
  – Singapore
Stakes are enormous

Present value of perpetuity without growth

10% more FDI  
+/- 2.5 % GDP

10% higher tourism revenues  
+/- .3 % GDP

Source: INEGI, author’s estimates, discounted at 8%
• Mexico’s reputation seriously damaged

• Failure to act would be costly
  – Perceptions will shape reality
  – Lose critical strategic options (i.e. migration reform, next phase of NAFTA)
  – Destroy valuable intangible asset
  – Huge opportunity cost

• Imperative to act now