

# Restoring Mexico's International Reputation

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WWICS-Comexi

May, 2011

## *Today's presentation*

- 1 Perceptions are negative
- 2 All not well with Mexico
- 3 Truth and perceptions misaligned
- 4 High costs of bad reputation
- 5 Time to fix this

# 1

## Perceptions are negative

### Country Brand Index: 2010

	Mentions (K)	Grade	Rank
China	146	59	7
Brazil	105	65	14
India	922	56	39
Russia	297	40	171
<b>Mexico</b>	113	21	<b>196</b>

Source: East-West Communications, 2010

# 1

## Perceptions are negative

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”

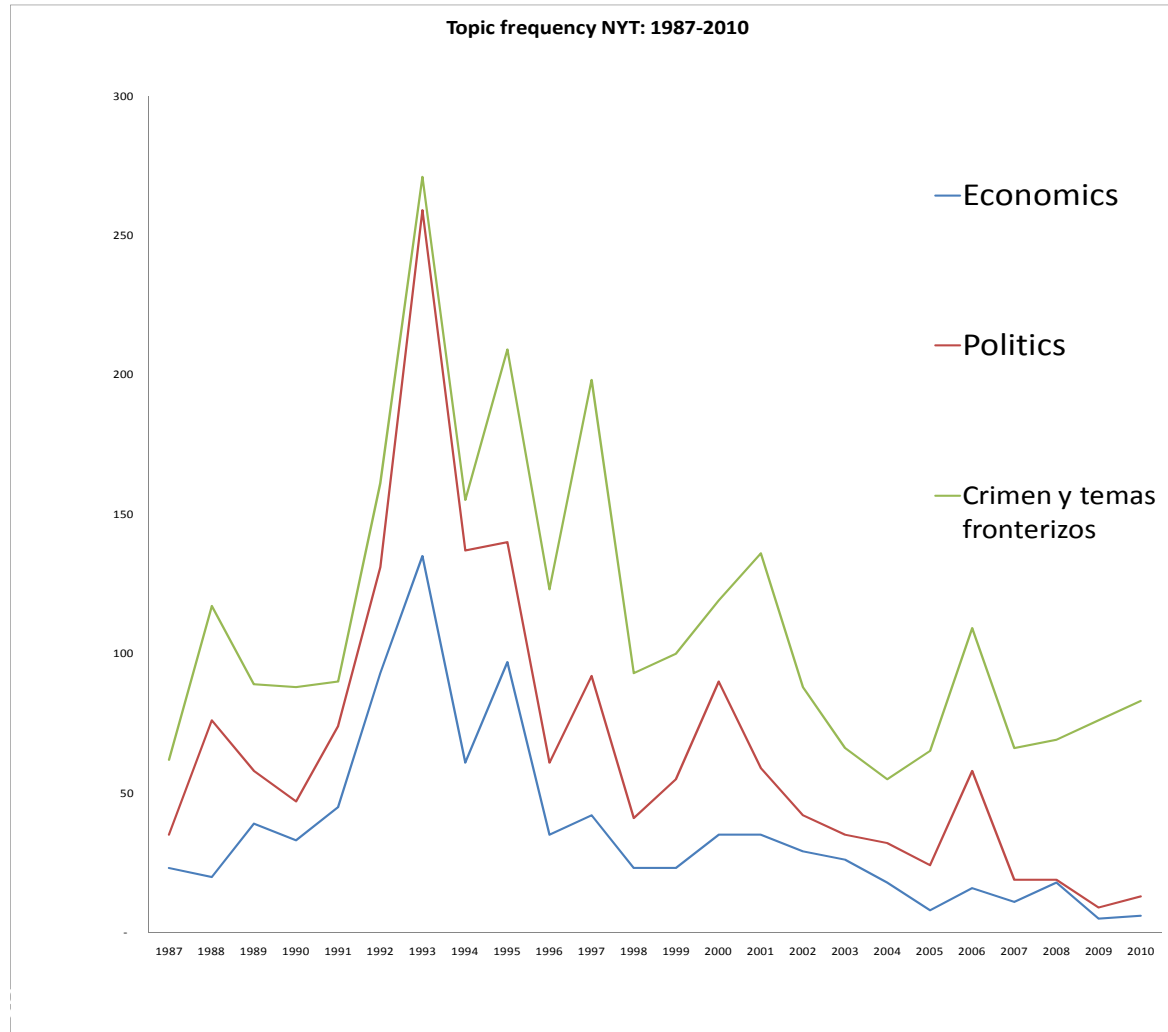
*The Economist*

*December 14, 1991*

# 1

## Perceptions are negative

### NY Times less interested in Mexico...

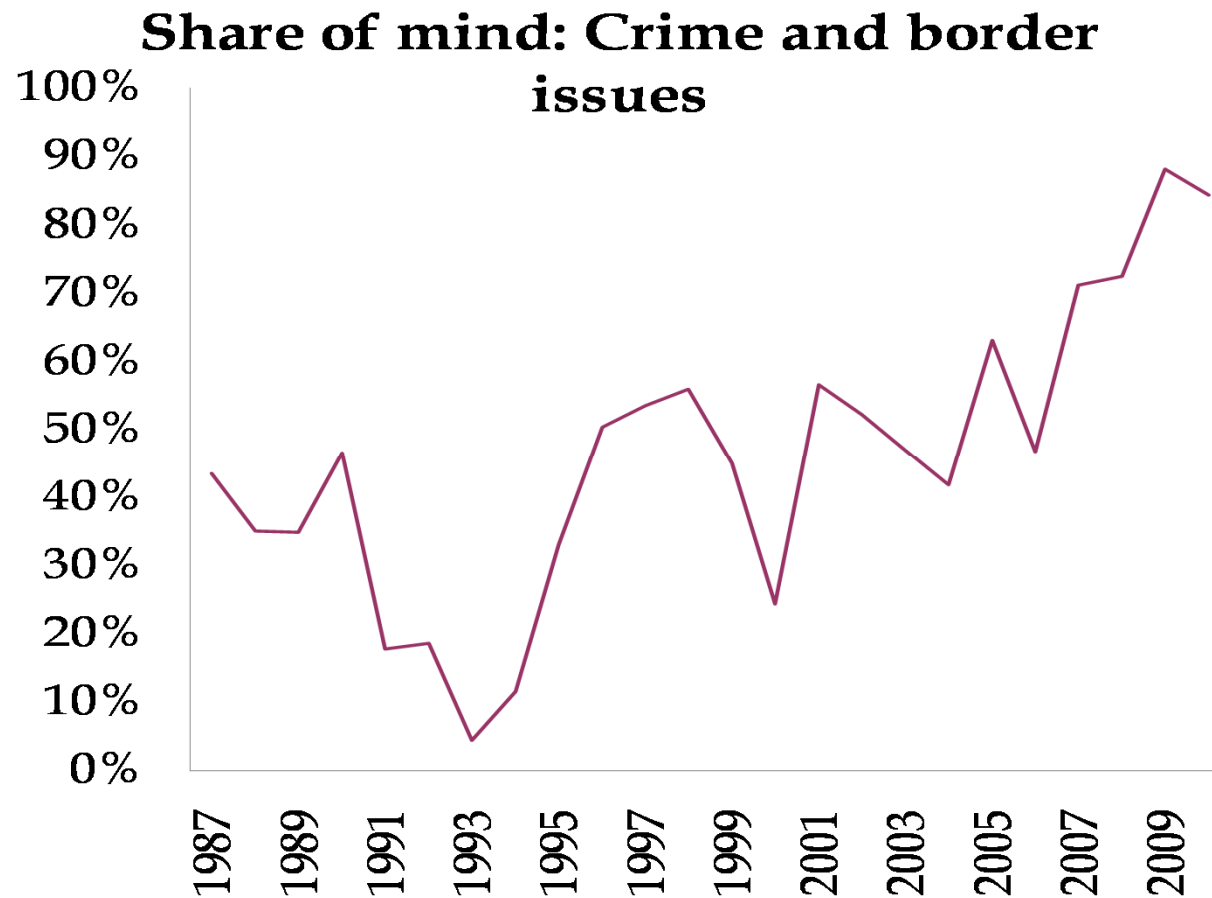


Source: Newell, 2011

# 1

## Perceptions are negative

...focused on reputation damaging news

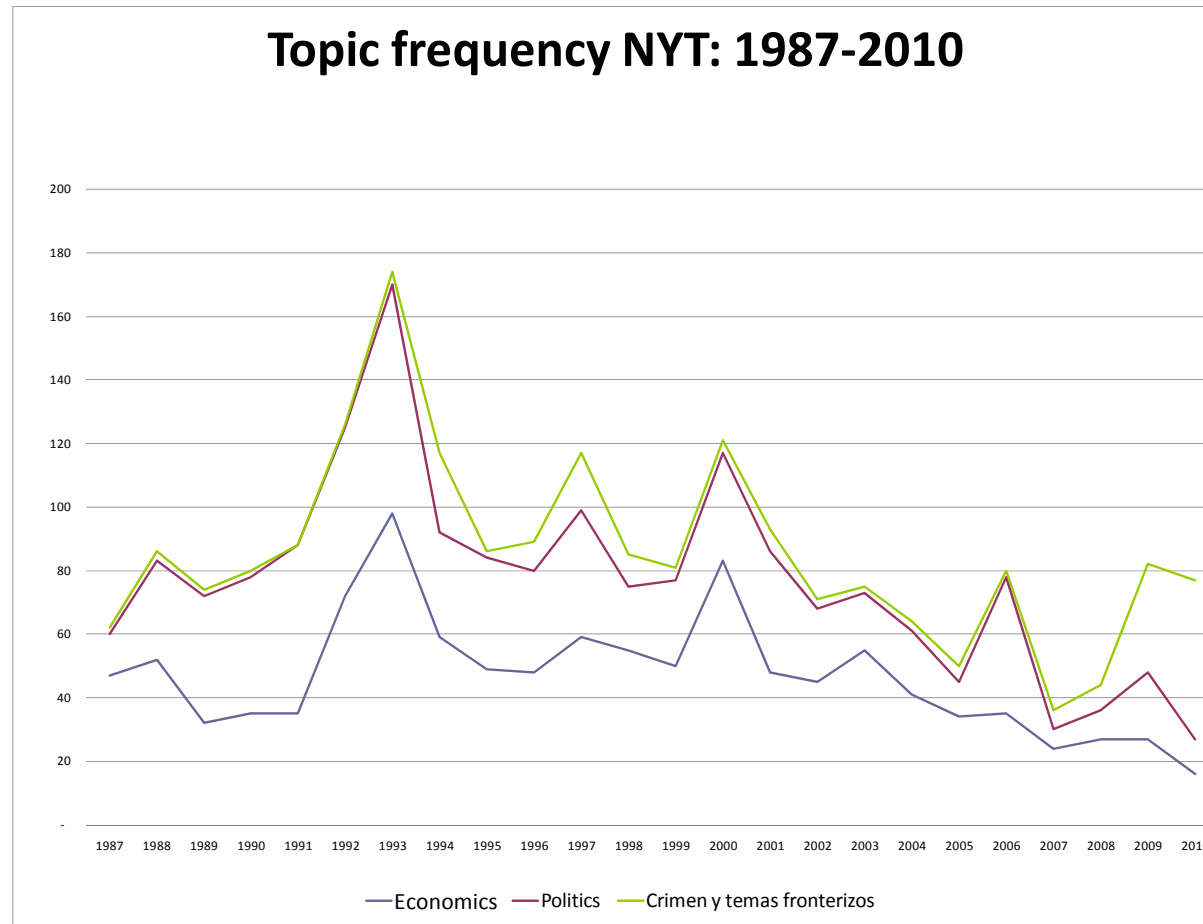


Source: Newell, 2011

# 1

## Perceptions are negative

Same with WSJ...

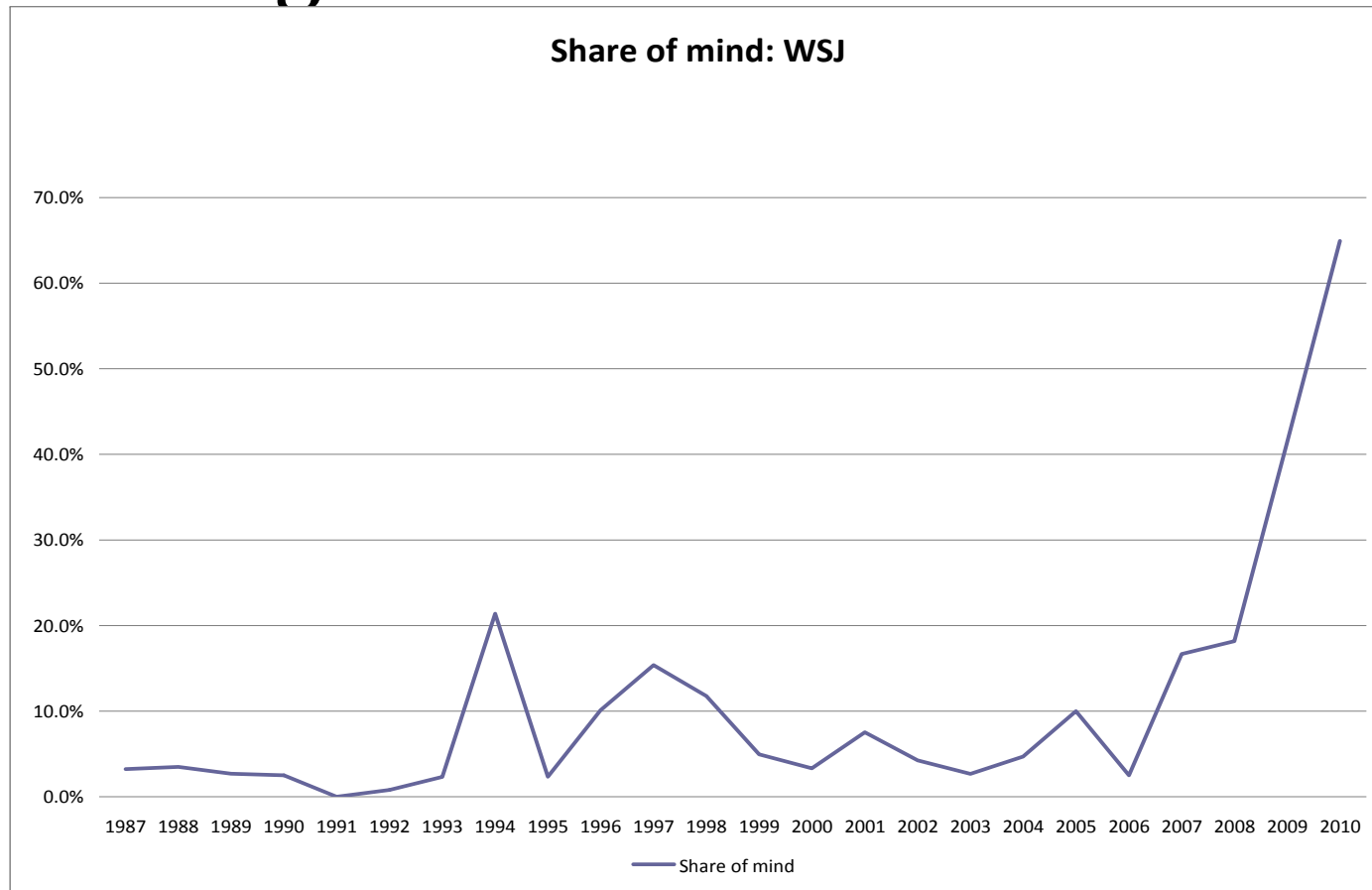


Source: Newell, 2011

# 1

## Perceptions are negative

...whose focus has also changed to crime and migration



Source: Newell, 2011

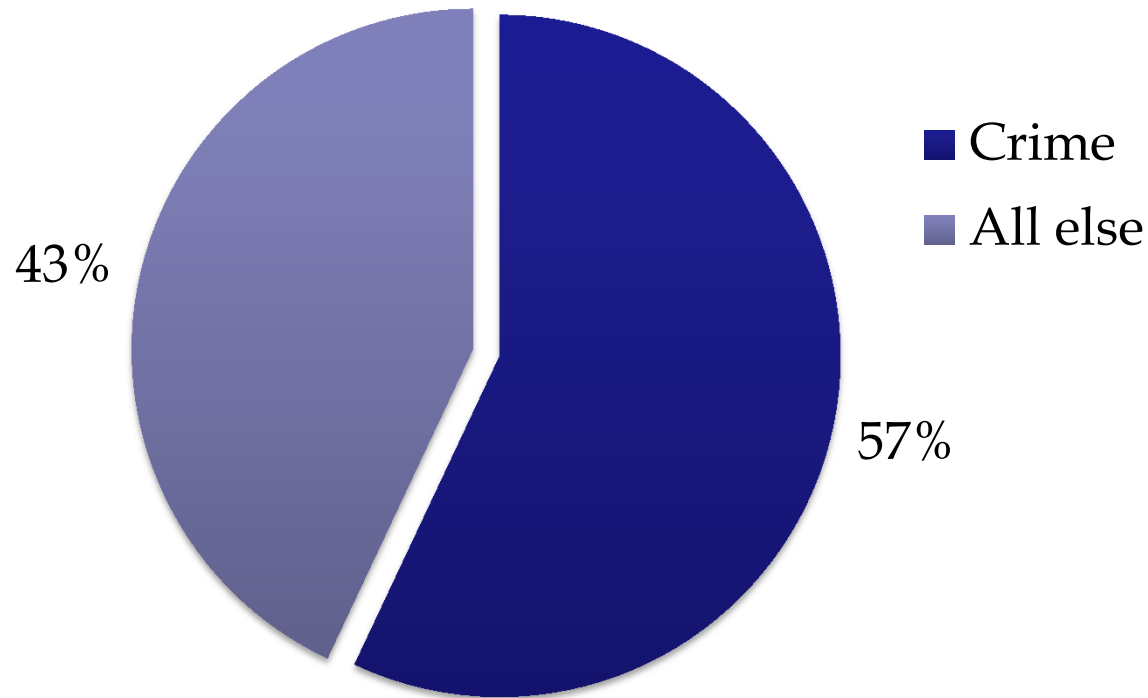


# 1

## Perceptions are negative

Reforma headlines also focused on crime...

Reforma's headlines  
April 12-May 11, 2011



# 1

## Perceptions are negative

Gary Larson foresaw this; we have become Tyrannosaurus Mex...



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# 2

## All not well with Mexico

### Labor productivity stagnant

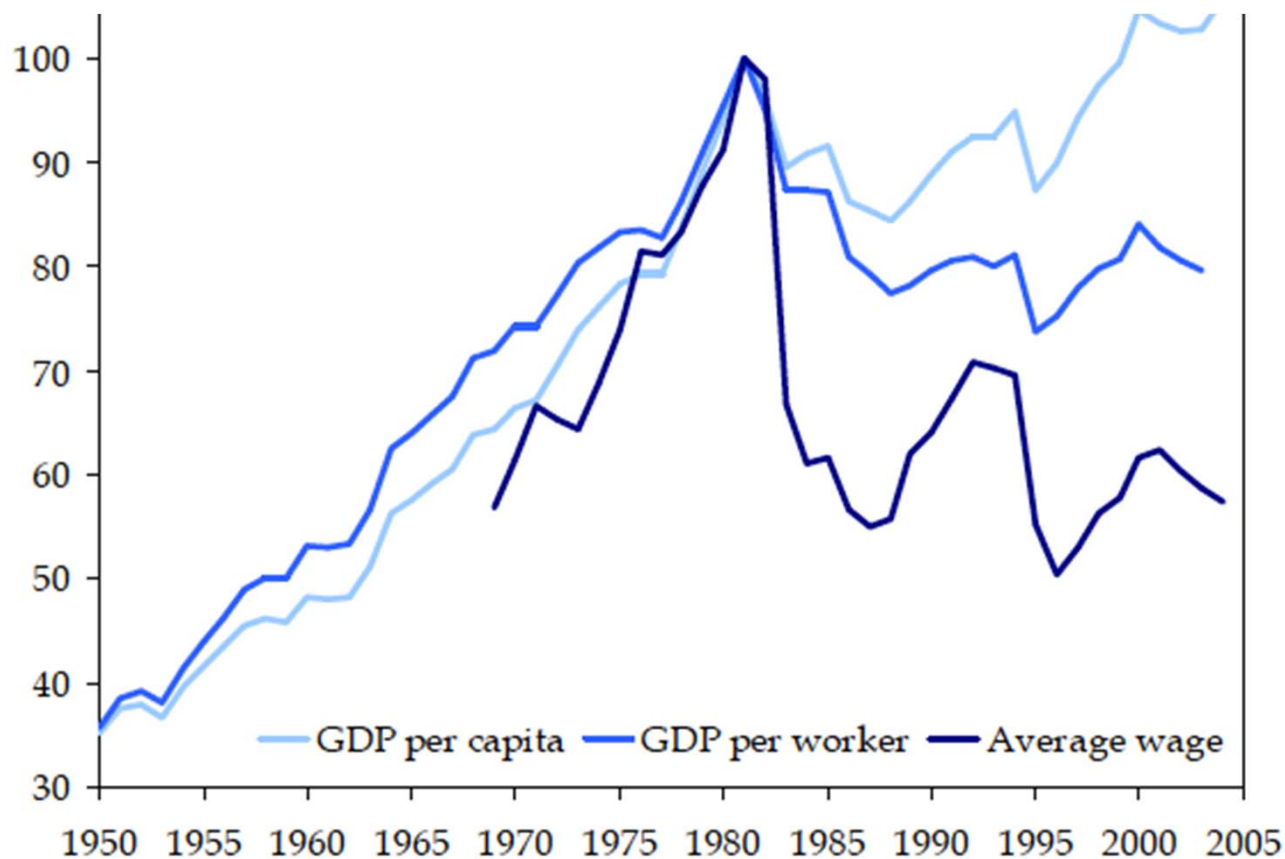


Figure 1. Evolution of three indices of real income in Mexico, 1981=100. GDP per capita and  
Source: Peña, Pablo A. Aggregate Shocks and Investment in Human Capital: Evidence on  
Postsecondary Schooling during the Lost Decade in Mexico. 2011.

## 2

## All not well with Mexico

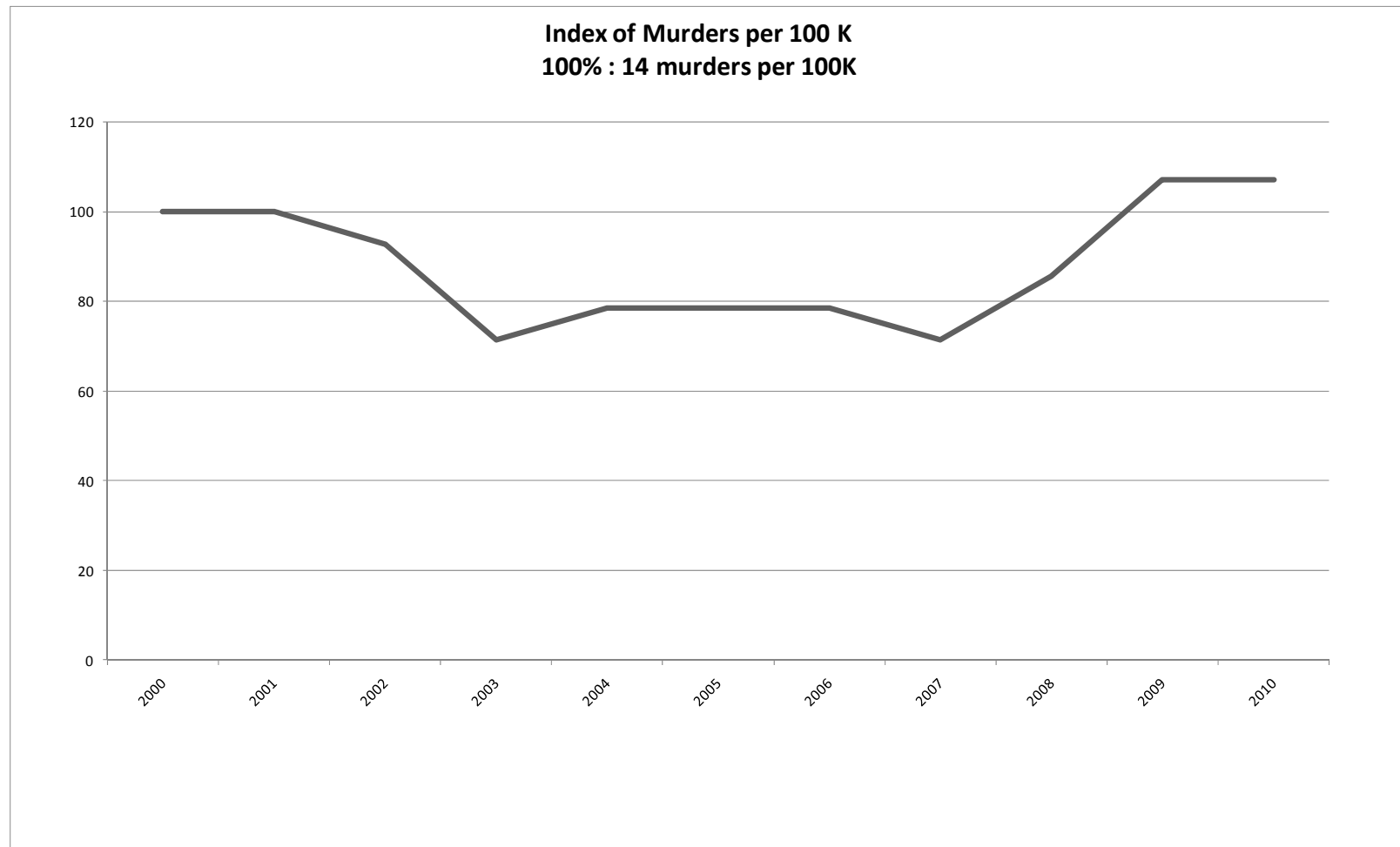
## Factionalism explains low productivity growth

Reform	PAN	PRD	PRI
Electricity (1997)	x	x	✓
Fobaproa (1996)	x	x	✓
Fiscal (2002)	✓	x	x
Petroleum (2008)	✓	x	x
Fiscal (2009)	✓	x	x
Security (2011)	✓	?	x
<i>Reforma del Estado</i> (2011)	✓	✓	x & ✓

# 2

## All not well with Mexico

After a period of improvement, violent crime has risen



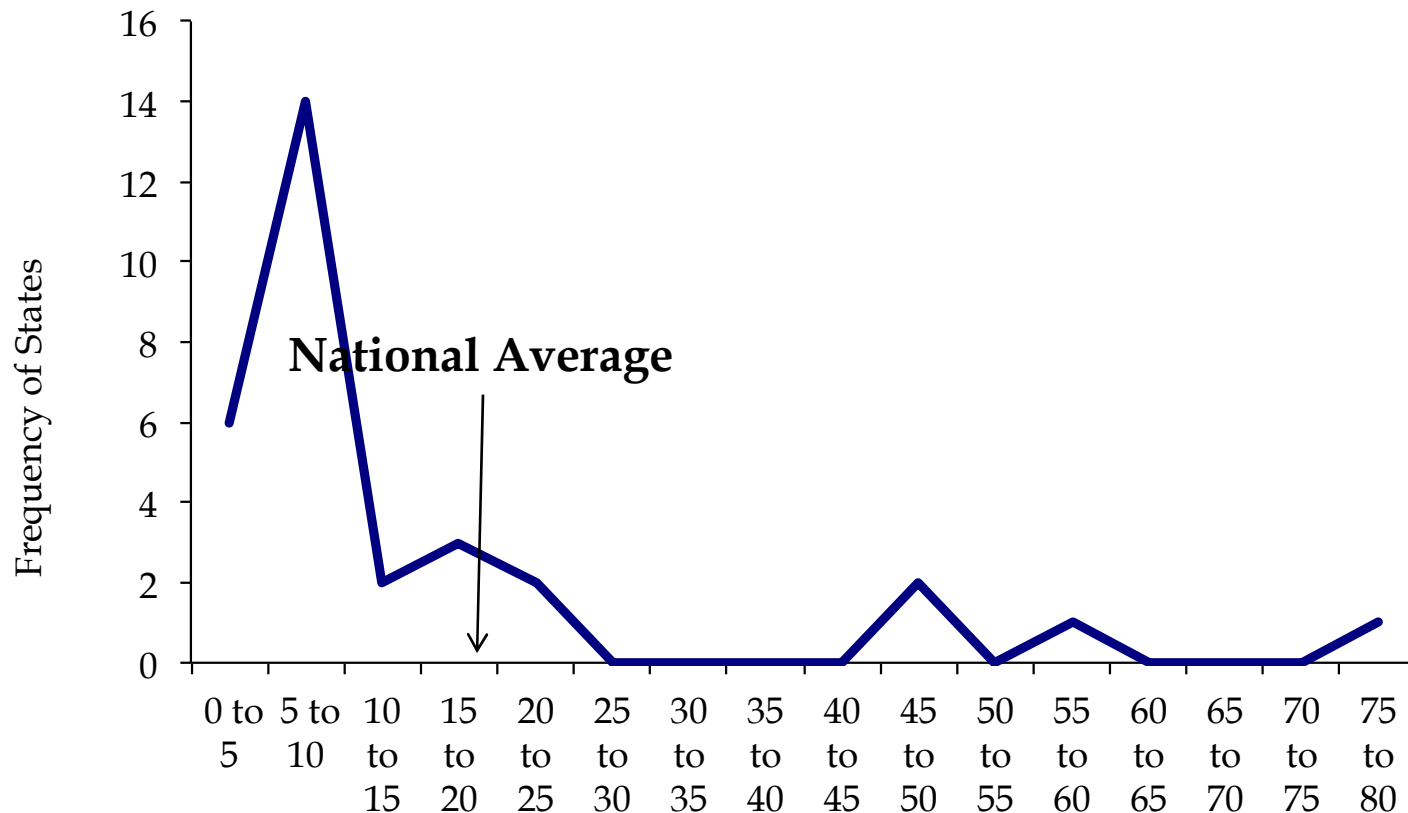
Source: U.N., PGR, estimates by author

# 2

## All not well with Mexico

But, Mexico not homogeneous

Murders per 100 K population in 2010



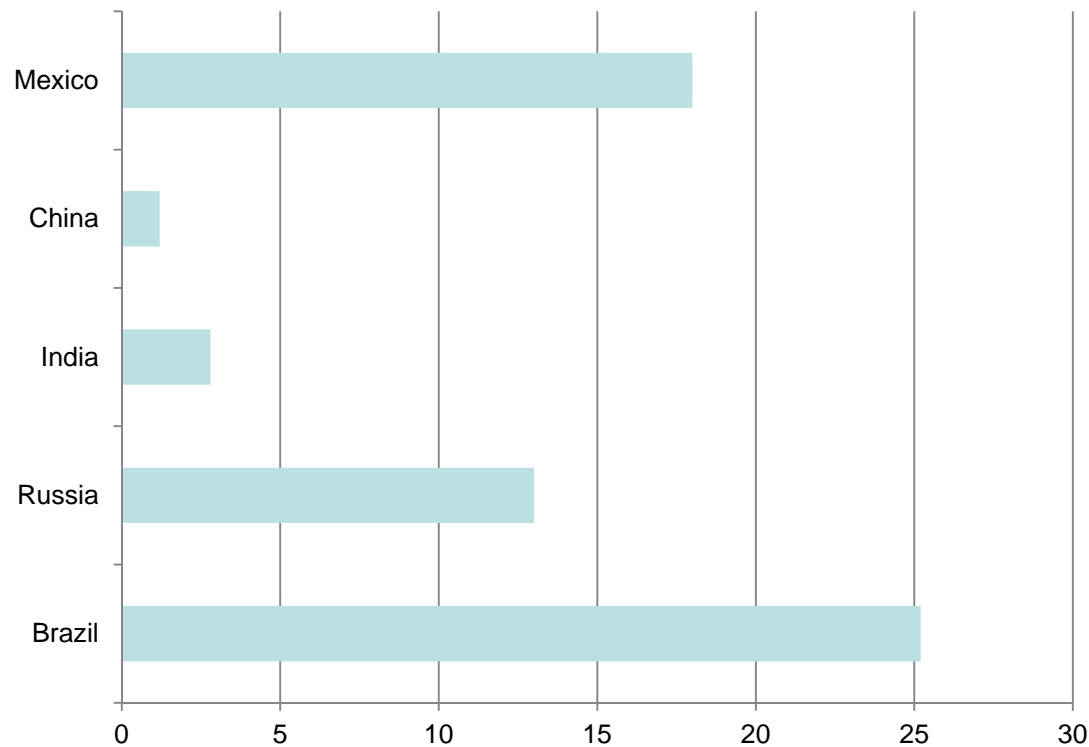
Source: U.N., with data from PGR

# 2

## All not well with Mexico

Nor is it the worst...

**Intentional homicides por 100K population**



**Other countries:**

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

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

**Source: U.N., with data from PGR**



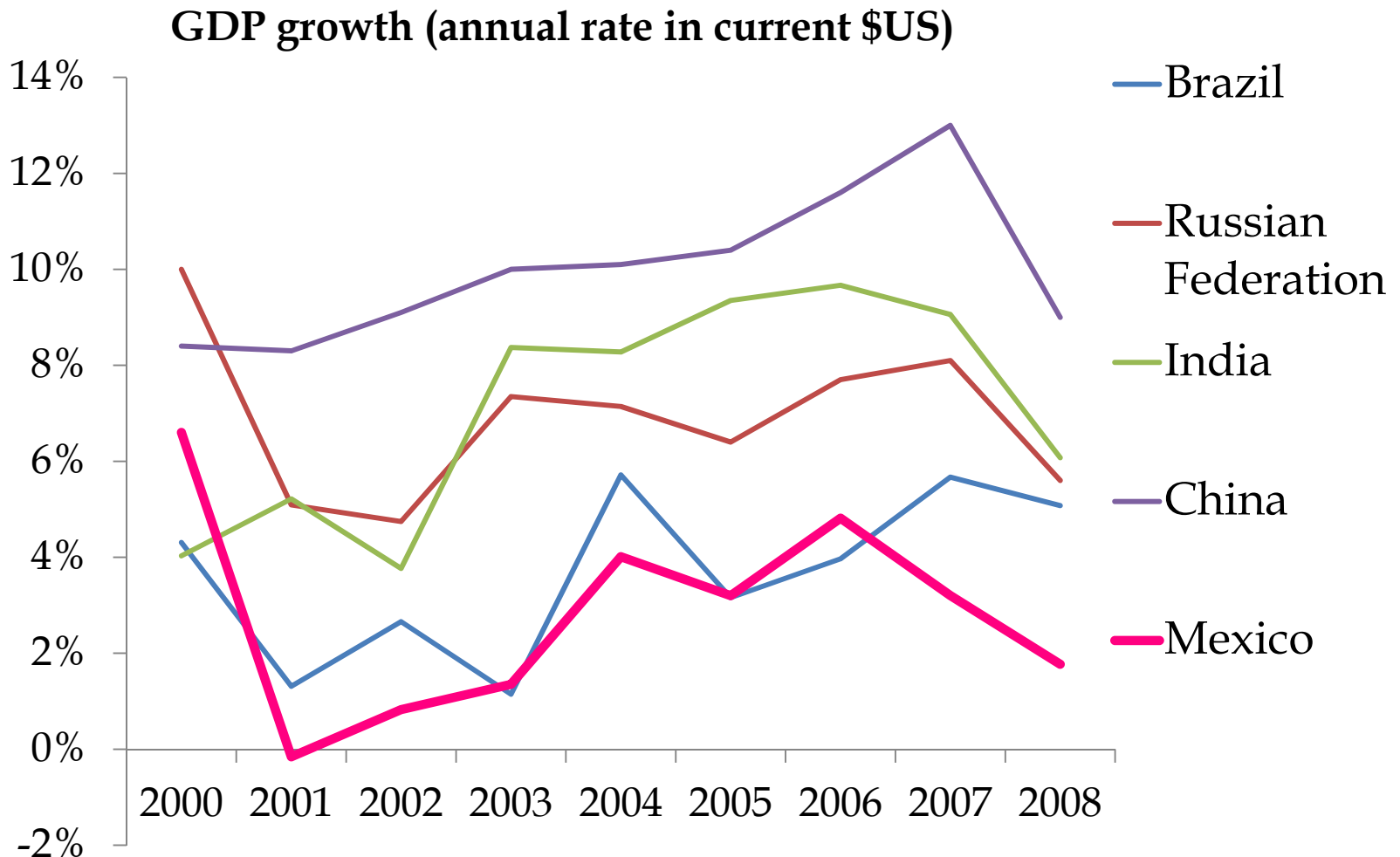
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# 3

## Truth and perceptions are misaligned

### BRICS growing more rapidly



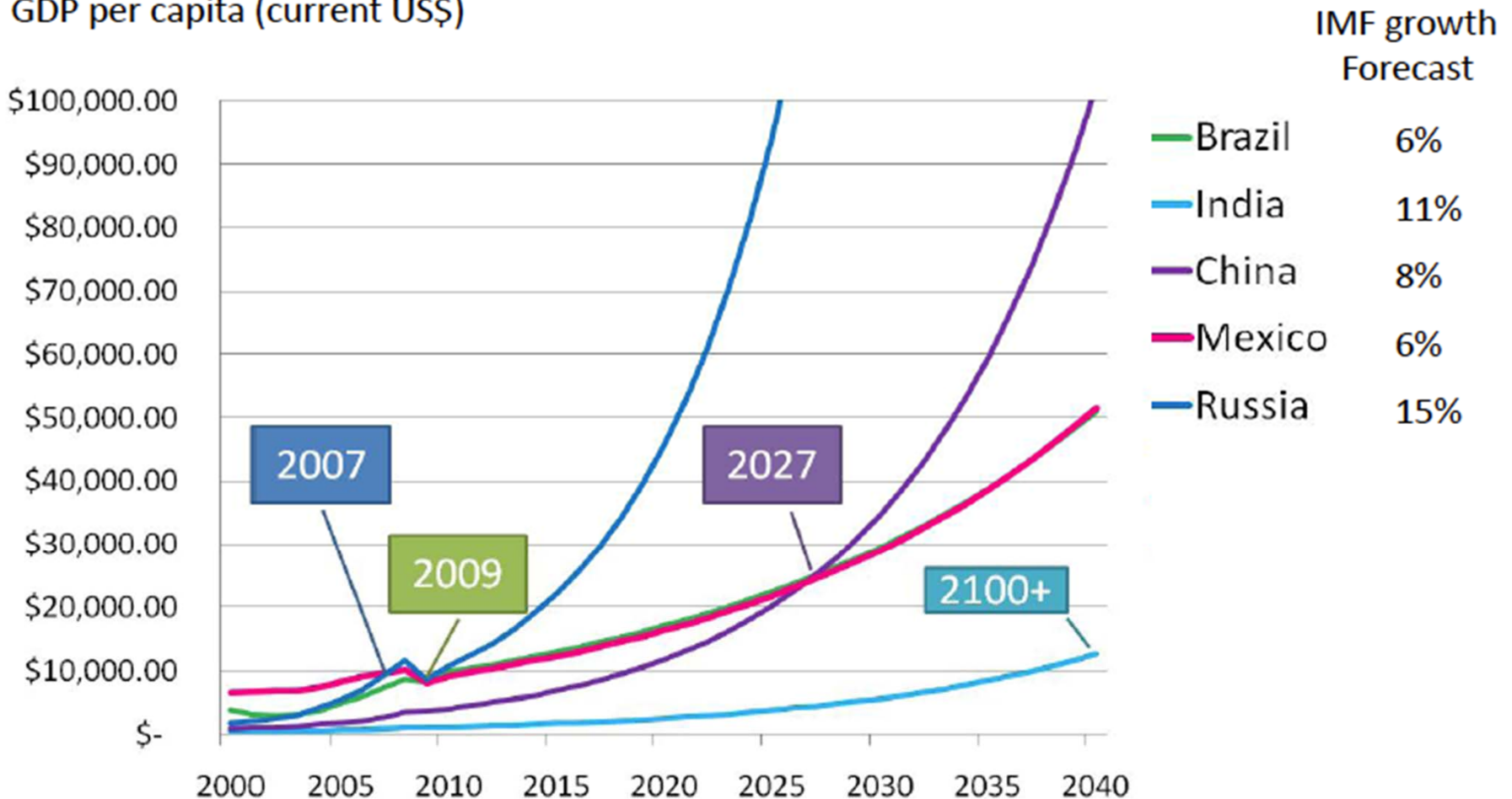
Source: World Bank. World Development Indicators

# 3

## Truth and perceptions are misaligned

### China and India won't catch up to Mexico soon

GDP per capita (current US\$)

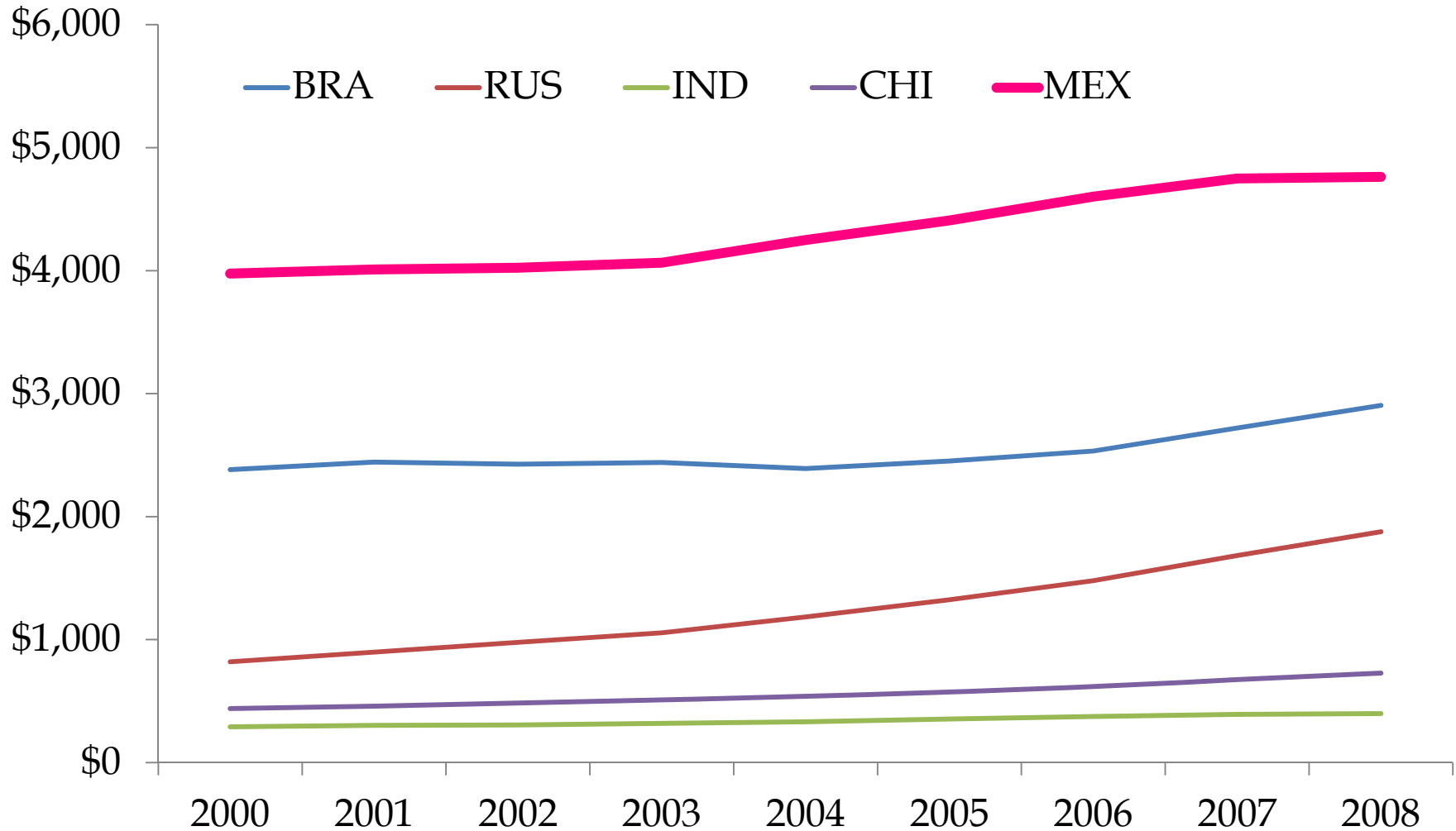


Source: IMCO using IMF World Economic Outlook data base

# 3

## Truth and perceptions are misaligned

Mexican households consume much more



World Bank. World Development Indicators

### 3 Truth and perceptions are misaligned

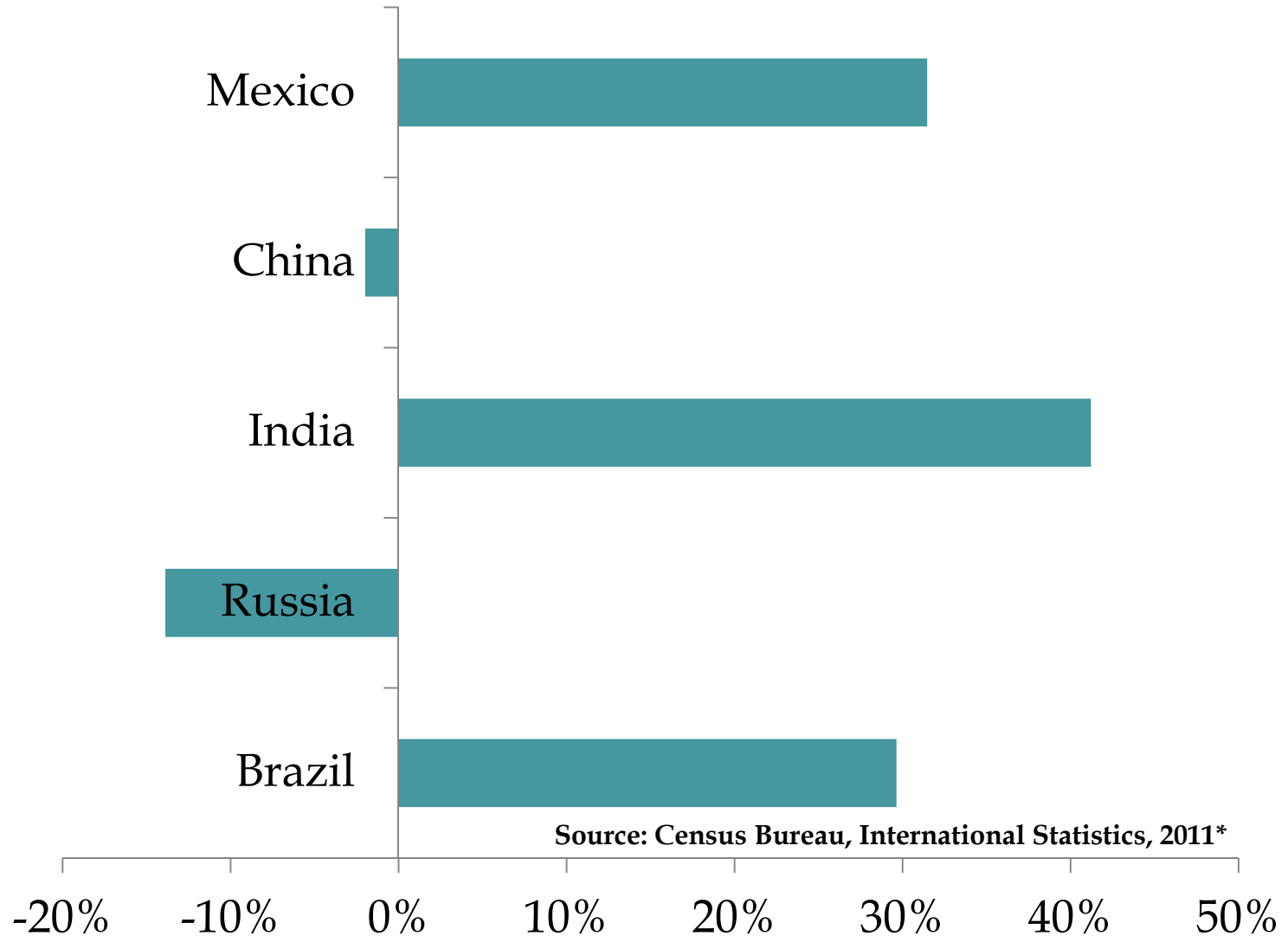
Ranking (out 183)	Brazil	Russia	India	China	Mexico
Ease of doing business	129	120	133	89	<b>51</b>
Starting a business	126	106	169	151	<b>90</b>
Dealing with construction permits	113	82	175	180	<b>37</b>
Employing workers	138	109	<b>104</b>	140	136
Registering property	120	45	93	<b>32</b>	99
Getting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

# 3

## Truth and perceptions are misaligned

### Population projections favorable

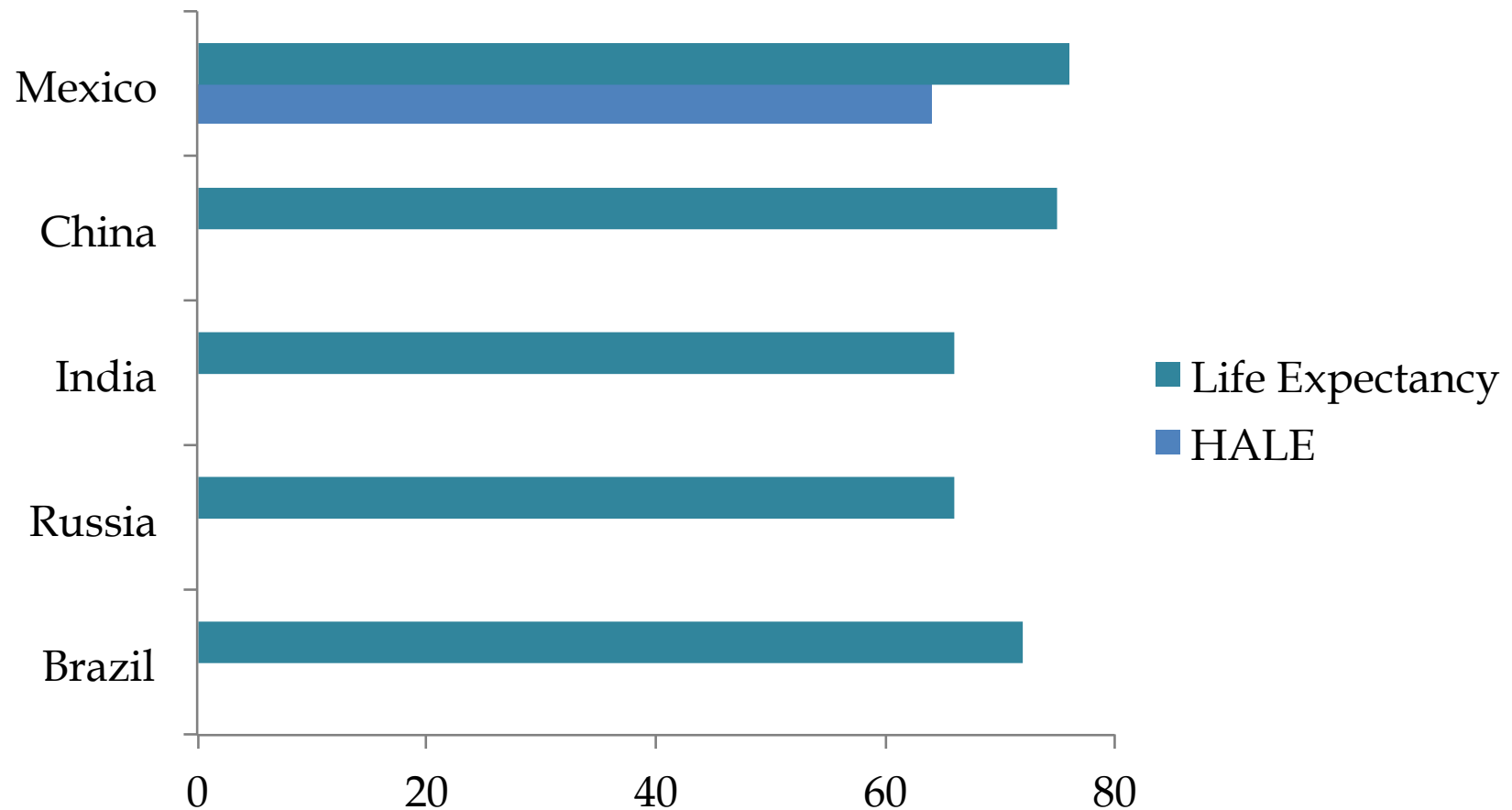
Accumulated population growth: 2050



# 3

## Truth and perceptions are misaligned

### Life expectancy also better

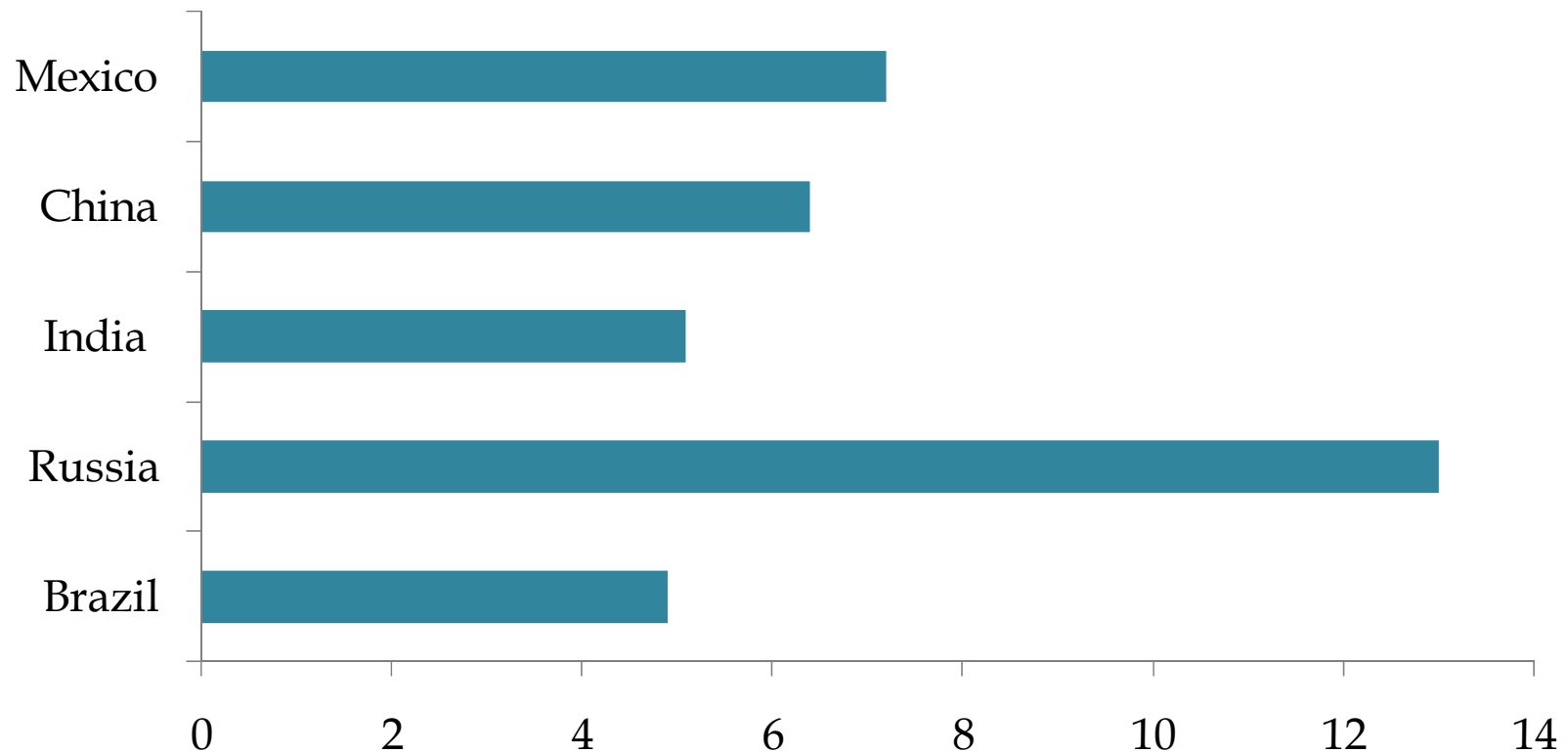


Source: Nationmaster, Statistics, 2011, HALE taken from OECD

# 3

## Truth and perceptions are misaligned

As are schooling levels, compared to most BRICs





# 3

## Truth and perceptions are misaligned

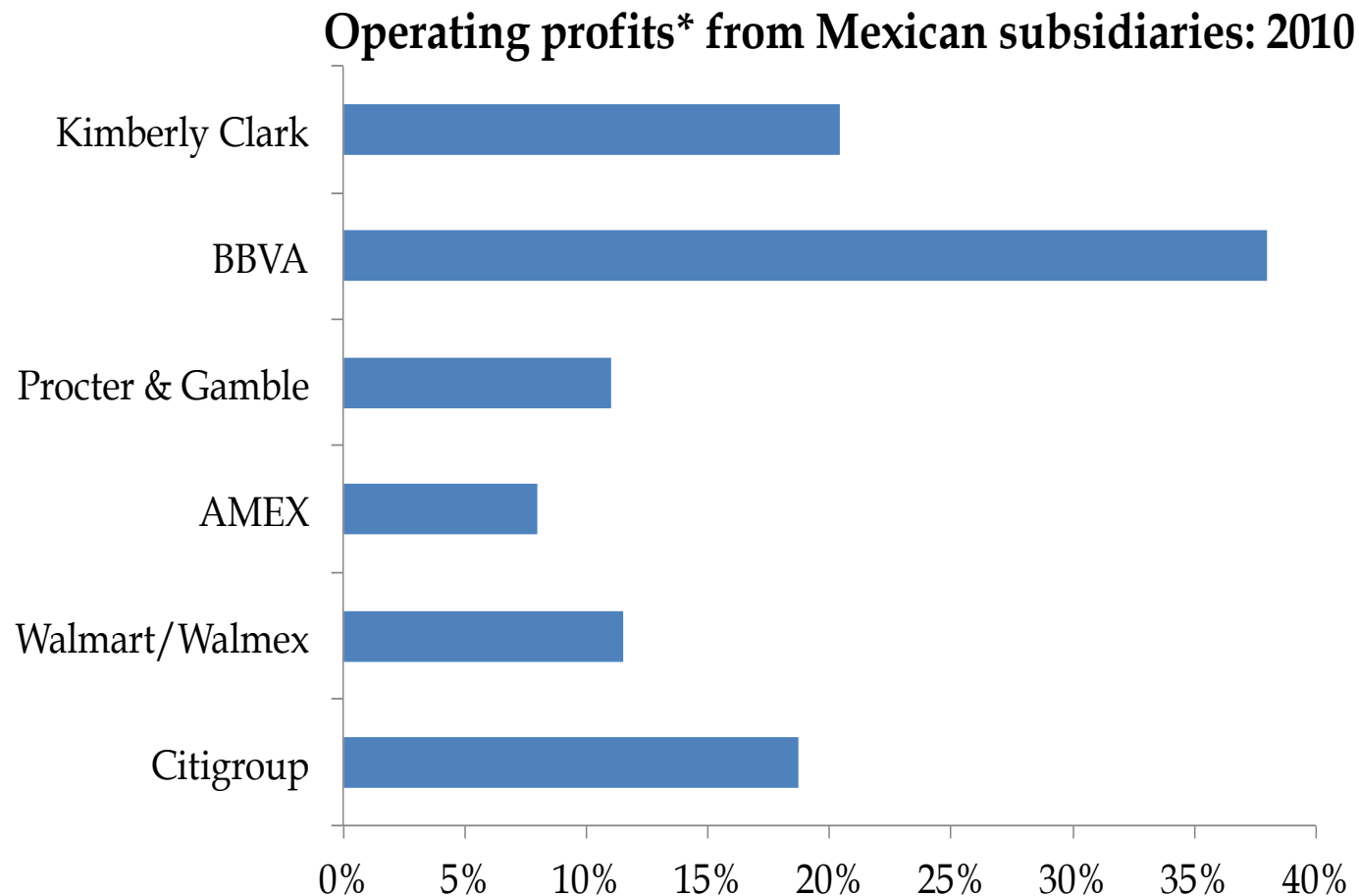
In sum, this is best  
Mexico ever

In this context ...

# 3

## Truth and perceptions are misaligned

### Subs of multinationals are doing well...



\*Operating profit used to eliminate effects of debt and taxes

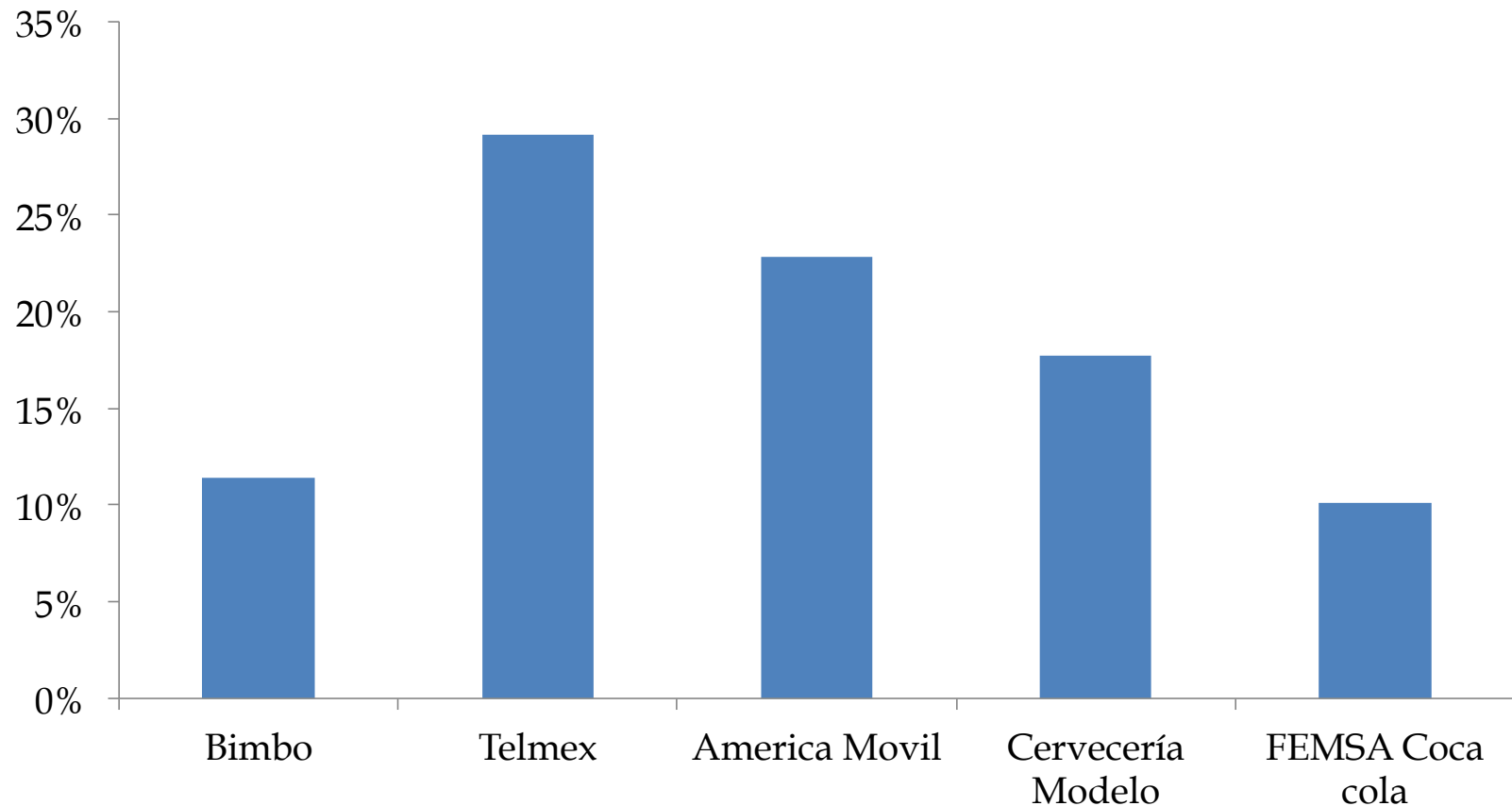
Source: corporate 10Ks, author's estimates

# 3

## Truth and perceptions are misaligned

...as are domestic corporations

Operating profits / Total assets: 2010



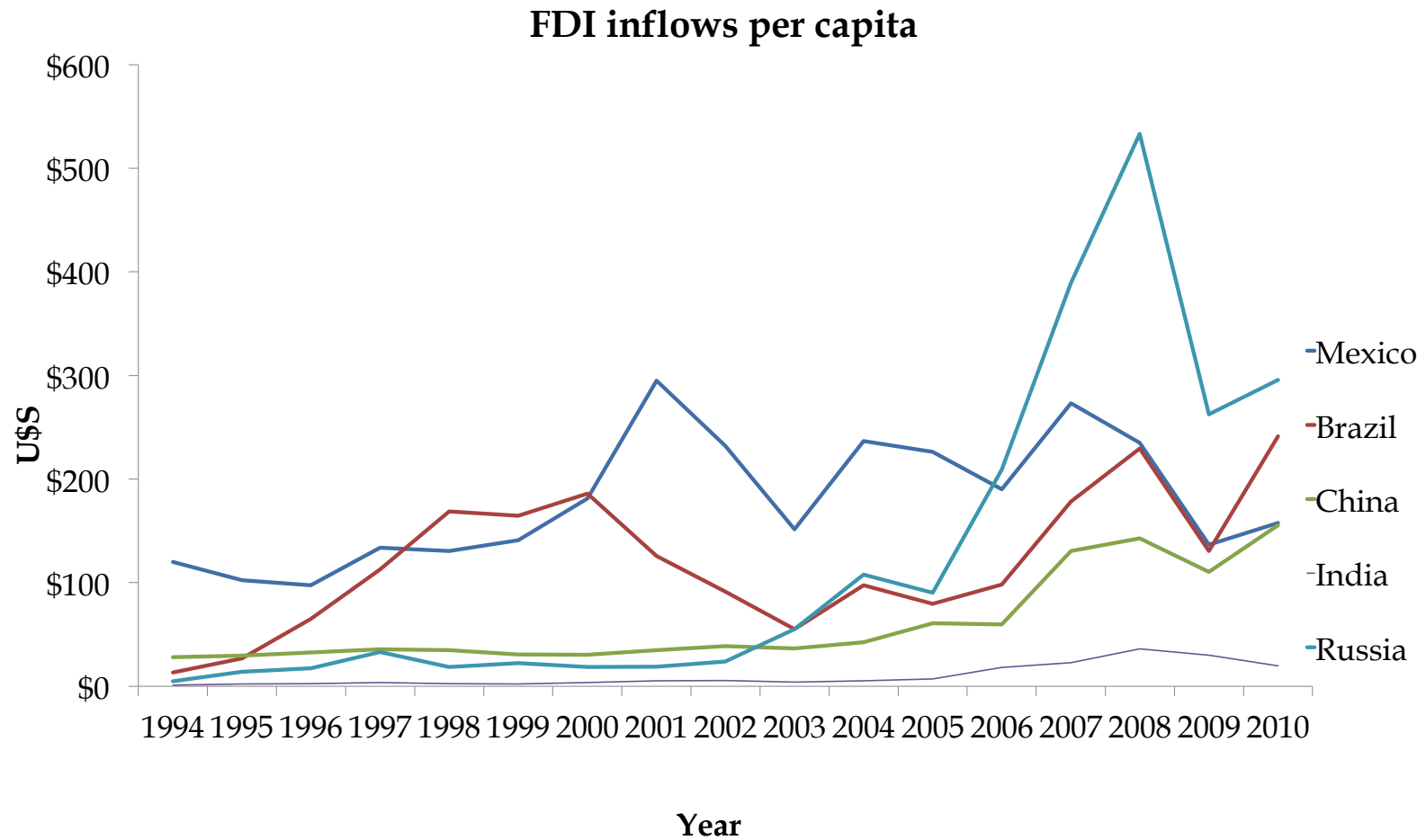
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# 4

## Costs of bad reputation are high

FDI not growing as expected

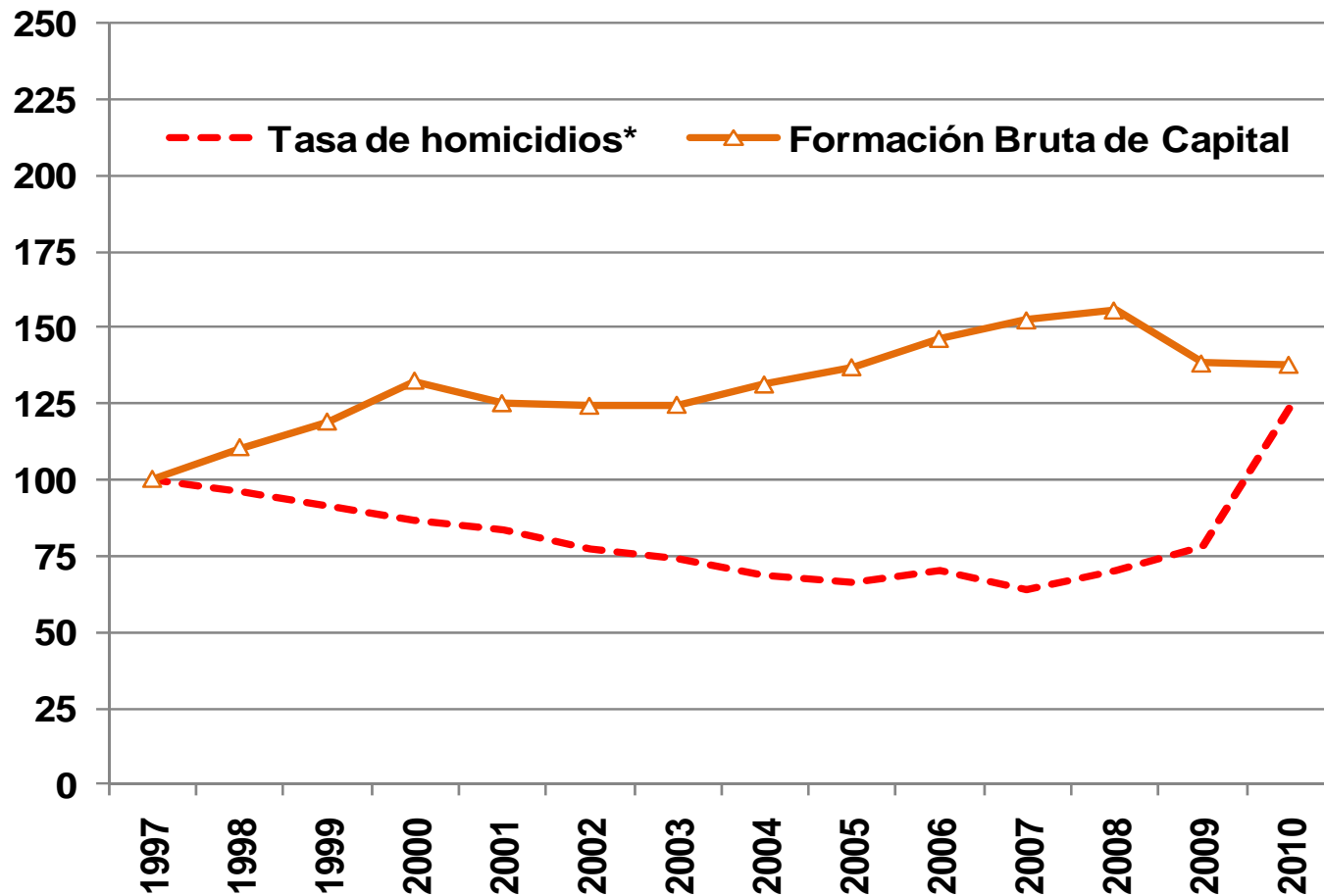


Source: IMF, International Financial Statistics, author's estimates

# 4

## Costs of bad reputation are high

Investment flows possibly affected by rising crime rates

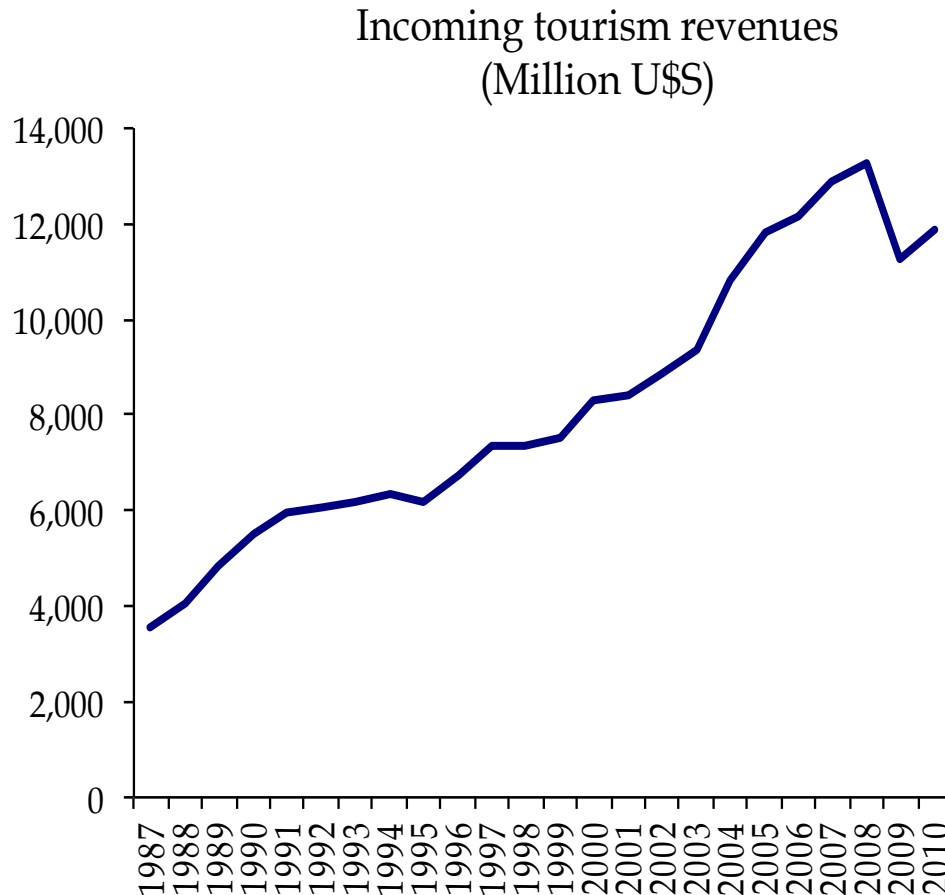


Source: Serra Puche, 2011

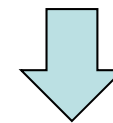
# 4

## Costs of bad reputation are high

### Triple whammy to tourism



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



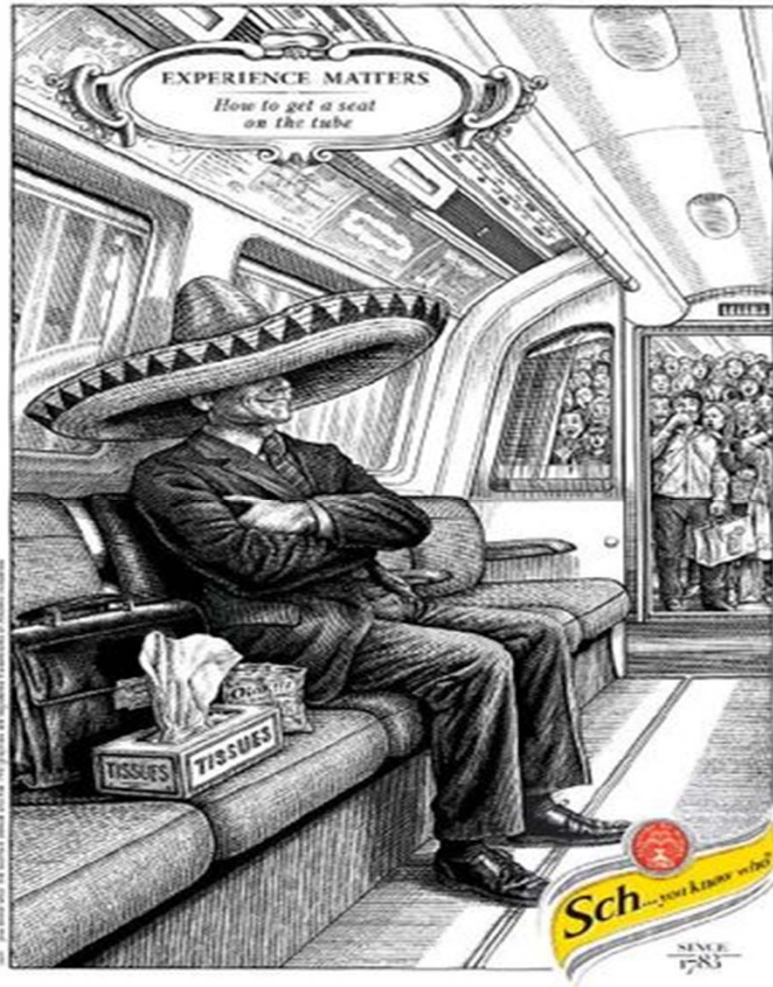
**15 % revenue drop in 2009**

Source: INEGI, BOP statistics

# 4

## Costs of bad reputation are high

Bad luck contributed to this outcome





# 4

## 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

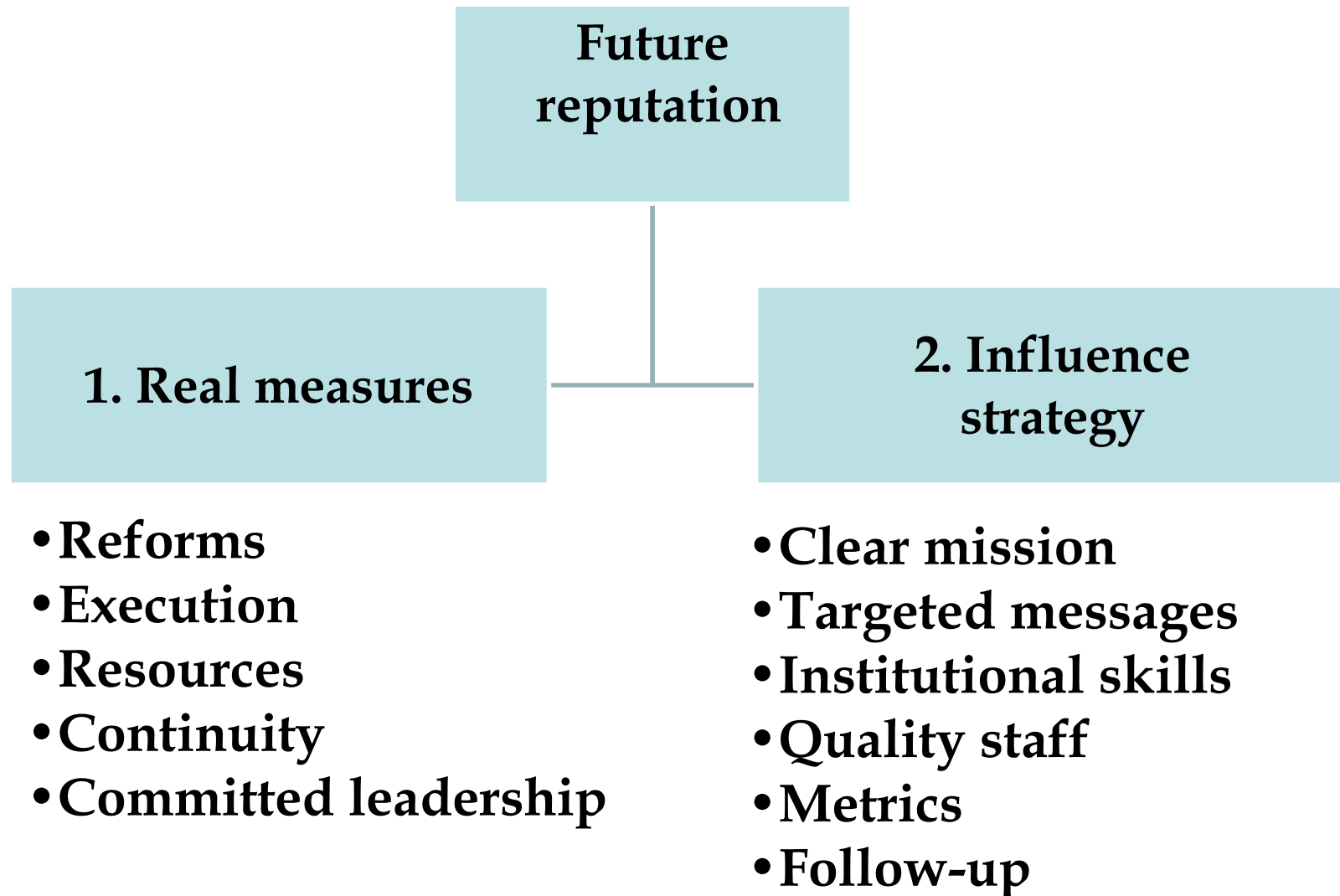
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# 5

## Time to fix this

### Need to act on two fronts simultaneously



# 5

## Time to fix this

### Experiences to draw on

- Lobbying policy decision makers
  - Israel
  - Canada
  - Korea
  - Mexico (1992-1994)
- Communication strategies
  - Brazil
  - China
- Soft power deployment
  - Chile
  - Singapore

# 5

## Time to fix this

**Stakes are enormous**

**Present value of perpetuity without growth**

**10% more FDI                      +/- 2.5 % GDP**

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

Source: INEGI, author's estimates, discounted at 8%

## Summary

- 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