

Chapter 2

Mexico's elevation in the global geo-political and economic order

2.1 The United Mexican States (Mexico) is a congressional democracy with a directly elected President who serves a single six-year term. Mexico's bicameral congress comprises 128 senators (serving six-year terms) and 500 members in the Chamber of Deputies (serving 3-year terms).¹ Mexico has a long history of political stability and, since the early 1990s, has moved from a political system dominated by a single party, to an increasingly robust, multi-party democracy.²

Domestic reform

2.2 The political climate in Mexico has changed significantly since the turn of the century. In 2000, the election of President Vicente Fox of the National Action Party (PAN) broke the political hegemony of the Institutional Revolutionary Party (PRI). The Fox administration demonstrated sound fiscal management, pursuing macroeconomic goals and focusing on increasing investment and employment. This promoted economic growth and moved Mexico out of recession. President Felipe Calderón of the PAN was elected in 2006 and his administration continued the economic liberalisation and stable macroeconomic policies of the Fox administration. This resulted in continued economic stability, as well as the implementation of universal health coverage and improvements to education.³

2.3 Enrique Peña Nieto of the PRI was inaugurated as President in December 2012. He identified five key goals for his presidency:

- improving security and justice;
- combatting poverty;
- providing quality education for all;
- maintaining solid economic growth; and
- re-positioning Mexico in the world, with a focus on enhancing ties with the Asia-Pacific region.⁴

2.4 Since taking office, President Peña Nieto has embarked on an ambitious and wide-ranging program of structural and regulatory reforms (95 in total) in the

1 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 19 October 2015).

2 Department of Foreign Affairs and Trade, *Submission 30*, p. 3.

3 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 4 November 2015).

4 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 19 October 2015).

education, energy, fiscal policy, internal security, telecommunications, and political sectors. Despite encountering some challenges, the Peña Nieto Administration has passed a series of key constitutional reforms, accompanied by legislative and regulatory changes.⁵

2.5 Corruption, crime-related violence, and high levels of poverty comprise the major challenges faced by the Peña Nieto Administration and continue to be significant obstacles to reform and continued development.⁶ However, the Australian Department of Foreign Affairs and Trade (DFAT) noted that 'the current Mexican Government has demonstrated both an awareness of these challenges and a willingness to address them'.⁷

Promoting transparency and addressing insecurity

2.6 In May 2015, President Peña Nieto enacted two significant reforms to improve transparency and address corruption. The first, the General Law of Transparency and Access to Public Information, lays the groundwork to 'ensure that the right of access to information is exercised throughout the country on equal terms'. The second, the National Anti-Corruption System, 'will coordinate different authorities for the task of preventing, investigating and punishing possible acts of corruption, as well as those responsible for overseeing public resources'.⁸

2.7 The Peña Nieto administration is addressing insecurity and violent crime, with the level of homicide and violent crimes falling in recent years. The administration issued a National Programme for Social Prevention of Violence and Crime, which comprises ten strategies that 'guide the Security Policy and Law Enforcement and integrates 9 Secretaries (Ministers) of State'. The Peña Nieto administration has also worked to reinforce the institutional mechanisms and coordination between all levels of government and agencies.⁹

2.8 DFAT acknowledged that, despite the impressive gains achieved in recent years, the Mexican Government continues to face 'a range of difficult challenges including corruption, poverty, wealth inequality and crime-related violence'. Nonetheless, DFAT commended the Mexican Government for demonstrating 'an awareness of these challenges and a willingness to address them'.¹⁰ Austrade also recognised that 'security and corruption issues do exist' but noted that security issues tend to be highly regionalised and corruption concentrated in certain industries.¹¹

5 Department of Foreign Affairs and Trade, *Submission 30*, p. 3.

6 Department of Foreign Affairs and Trade, *Submission 30*, p. 1.

7 Department of Foreign Affairs and Trade, *Submission 30*, pp 1–3.

8 Embassy of Mexico, *Submission 9*, p. 3.

9 Embassy of Mexico, *Submission 9*, p. 3.

10 Department of Foreign Affairs and Trade, *Submission 30*, p. 1.

11 Australian Trade Commission, *Submission 39*, p. 17.

Foreign policy

2.9 Traditionally, Mexico's relationship with the US has dominated its foreign policy; however, it has recently adopted a forward-leaning and multifaceted approach. The Peña Nieto Administration has actively pursued four key foreign policy goals:

- consolidate Mexico's presence on the world stage;
- strengthen development-oriented international cooperation;
- promote Mexico through a worldwide campaign; and
- promote the interests of the country and its citizens abroad.¹²

2.10 The promotion of trade and investment has become a focus in Mexican foreign policy and President Peña Nieto has been active in strengthening bilateral ties with a range of countries identified as key to improving Mexico's international stature. The President undertook 16 official visits overseas in 2013 (his first year in office) and has received a large number of foreign heads of State and Government, including visits by the United States of America (US), China, Japan, and a range of others.¹³

2.11 Mexico has recently demonstrated a clear desire to shoulder greater responsibility in the global community. In 2014, during his address at the United Nations (UN) General Assembly, President Peña Nieto announced that Mexico would resume participation in UN Peacekeeping Operations, in a 'gradual and conditional way'. This announcement marked a significant foreign policy shift for Mexico, which has historically been opposed to foreign military interventions of any kind, and demonstrated Mexico's faith in multilateral institutions as the key driver in international peace and stability.¹⁴ His Excellency Ambassador Armando G. Álvarez Reina, told the committee:

Mexico is a country with global responsibility. Mexico is a country open to international scrutiny both in its democracy and in its human rights...We are firm believers in multilateralism. We are the 10th largest contributor to the United Nations. We are very much in favour of UN reforms to make the UN not only a more democratic body, but also a more agile body, capable of supporting development. We are now participating in peacekeeping operations along with Australia.¹⁵

2.12 Mexico is actively engaged multilaterally in issues such as climate change, development, and disarmament. Mexico participates in a number of multilateral forums such as Asia-Pacific Economic Cooperation (APEC), the Group of Twenty (G20), OECD, WTO, and the United Nations (UN) system on international peace and security issues, including on the Responsibility to Protect. In 2013, Mexico committed

12 Department of Foreign Affairs and Trade, *Submission 30*, p. 3.

13 Department of Foreign Affairs and Trade, *Submission 30*, p. 3.

14 Department of Foreign Affairs and Trade, *Submission 30*, p. 4.

15 His Excellency Armando G. Álvarez Reina, Ambassador, United Mexican States, *Committee Hansard*, 29 October 2015, pp 44–45.

to preventing the spread of chemical and biological weapons when it joined the Australia Group.¹⁶ Ambassador Álvarez Reina told the committee:

In the last few decades, we have been championing the best international causes. At the initiative of Mexico, the treaty of Tlatelolco was signed in Mexico City that consolidated Latin America as the first nuclear-free zone in the world. In the human rights field, at the initiative of Mexico, the former UN Commission on Human Rights was replaced by the UN Human Rights Council and Mexico became the first president of that new council. It was less politicised and more effective. In climate change, for instance, a few years ago we hosted the COP16, which rescued the world climate negotiations from the previous failure and relaunched the process that will continue this year in Paris. In international governance we also hosted the G20 summit in 2012. My president was here in Brisbane last year, present for the same forum.¹⁷

2.13 Mexico has demonstrated a strong interest in enhancing its relations with influential countries with which it has traditionally enjoyed cordial, but relatively modest relations. Mexico is an active and enthusiastic member of MIKTA, an innovative partnership created in 2013 that brings together Mexico, Indonesia, the Republic of Korea, Turkey, and Australia to discuss opportunities to enhance cooperation on global issues.¹⁸

Economy

2.14 Mexico has a strong and growing economy. Widespread trade liberalisation over the past several decades has transformed the Mexican economy from a highly protected inward-oriented economy to an open, regionalised, and market-based economy.¹⁹ Mexico's economy was ranked fifteenth in the world by the World Bank in 2014 with a GDP of US\$1.3 trillion. Mexico's economy grew by 2.1 per cent in 2014 and is expected to grow by 3 per cent in 2015.²⁰ It is predicted that, by 2050, Mexico will be one of the world's ten largest economies.²¹ In 2014, the credit rating agency Moody's upgraded Mexico's sovereign rating to an 'A'.²²

2.15 Mexico is designated as an upper middle income country by the World Bank. In 2014, Mexico had a population of approximately 125 million people and a GDP per

16 Department of Foreign Affairs and Trade, *Submission 30*, p. 4.

17 His Excellency Armando G. Álvarez Reina, Ambassador, United Mexican States, *Committee Hansard*, 29 October 2015, p. 44.

18 Department of Foreign Affairs and Trade, *Submission 30*, p. 4.

19 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 19 October 2015).

20 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 19 October 2015).

21 Department of Foreign Affairs and Trade, *Submission 30*, p. 1.

22 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 19 October 2015).

capita of US\$10,230.20.²³ However, as noted by the Australia-Latin America Business Council, there is a high degree of disparity between its rich and its poor. Mexico has a large informal economy generating an estimated 26 per cent of the nation's GDP. It is estimated that approximately 60 per cent of the Mexican workforce is engaged in the informal economy.²⁴

2.16 Foreign Direct Investment (FDI) in Mexico is significant and growing. Between 2012 and 2014, FDI in Mexico has more than doubled, increasing from approximately US\$18 billion to US\$38 billion.²⁵ As well as being an attractive destination for foreign investment, Mexico is also a major investor in its region. Mexico is the number one Latin American investor in Brazil, Costa Rica, Guatemala, Honduras, Nicaragua, and the Dominican Republic; as well as being a major investor in a number of other regional economies.²⁶

2.17 Mexico is a member of the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organisation (WTO) and has a proven interest in free trade. Mexico boasts a well-established and broad network of 11 Free Trade Agreements (FTAs) with 46 countries, granting it access to a market of more than 1.1 billion customers. Mexico also has 33 Reciprocal Investment Promotion and Protection Agreements (RIPPAs) and nine trade agreements (Economic Complementarity and Partial Scope Agreements) within the framework of the Latin America Integration Association (ALADI).²⁷

2.18 The Mexican economy is strongly connected to the United States. The economic integration is derived from close linkages across four important economic channels: trade, remittances, investment, and financial channels. The trade channel, in particular, is highly developed, with approximately 80 per cent of all Mexican exports destined for sale in the US domestic market. This interconnectedness is strengthened by the North America Free Trade Agreement (NAFTA), which groups Canada, the US and Mexico.²⁸

2.19 In 2013, Mexico invested US\$12.9 billion offshore, making it the 23rd largest investor in the world. Austrade noted that 'Mexico's major companies are actively pursuing an increasingly global approach'.²⁹

23 World Bank, *Mexico data*, http://data.worldbank.org/country/mexico#cp_wdi, (accessed 11 November 2015).

24 Australia-Latin American Business Council, *Submission 17*, p. 2.

25 United Nations Conference on Trade and Development, *World Investment Report 2014: Investing in the SDGs: An Action Plan*, p. xx.

26 Embassy of Mexico, *Submission 9*, p. 5.

27 Embassy of Mexico, *Submission 9*, p. 5.

28 Department of Foreign Affairs and Trade, *Mexico country brief*, <http://dfat.gov.au/geo/mexico/pages/mexico-country-brief.aspx>, (accessed 19 October 2015).

29 Australian Trade Commission, *Submission 39*, p. 13.

Mexican interest in Australia

2.20 Goods imports from Mexico have increased significantly over the last decade. In 2014, goods imports from Mexico were valued at around \$2 billion, with the major imports comprising telecom equipment and parts, alcoholic beverages, medical instruments, and passenger motor vehicles.³⁰ Mexican investment in Australia is primarily concentrated in private real estate and manufacturing.³¹

2.21 The Mexican Trade Commissioner, Esaú Gaza de Vaga, told the committee that 'the Mexican government is really committed and has posed great interest in diversifying its presence and partners in the world' and that 'Australia is one of those partners', pointing to the recent establishment of a trade commission office, ProMéxico, in Australia:

A clear example of what the Mexican government is doing to further expand its presence is having a trade commission in Australia. I am very glad to say that I have recently arrived in Australia as trade commissioner. I have been here for two months and we have already been engaged in different promotion and awareness events. This month, together with the ambassador and with Austrade and the local governments of Victoria and South Australia, we held seminars in the automotive industry. We had the participation of local firms that were exposed to the opportunities the automotive industry presents in Mexico. We confirmed that there is very little or no awareness of these opportunities. The companies were so surprised that we are now working on agendas. They are interested in visiting Mexico to explore and have direct dialogue with potential buyers in Mexico.³²

2.22 The Director of the Export Council of Australia, Andrew Hudson, advised the committee that Mexico is seeking to 'hedge their reliance on the US by engaging more with the Indo-Pacific region'.³³ The ANZMEX Business Council commented on the similarities between Australia and Mexico and highlighted the need for both countries to diversify their trading risk:

After all, [Australia and Mexico] share a very similar set of challenges. We both need to diversify our trading risk by penetrating new global value chains. We are both committed to accelerating a domestic economic reform agenda. We are both committed to educating our people to better seize the opportunities of globalisation. We both must develop the infrastructure that will transform the lives of our communities in tropical and sub-tropical zones. We both can act as much larger gateways to our respective regions.³⁴

30 Department of Foreign Affairs and Trade, *Submission 30*, p. 6.

31 Department of Foreign Affairs and Trade, *Submission 30*, p. 7.

32 Counsellor Esaú Gaza de Vaga, Trade Commissioner, ProMéxico, *Committee Hansard*, 29 October 2015, p. 46.

33 Mr Andrew Hudson, Director, Export Council of Australia, *Committee Hansard*, 29 October 2015, p. 27.

34 ANZMEX Business Council, *Submission 6*, p. 5.

2.23 DFAT noted that there is increasing awareness and interest in Mexico for expanding ties with Australia and Mexico's desire to expand its exposure in our region:

There is increasing Mexican awareness of the opportunities afforded by engaging with Australia, the 12th largest global economy with comprehensive FTAs with Asian partners include the ASEAN economies, China (subject to ratification), Korea and Japan. The potential for Mexico to hedge its economic reliance on the US by engaging with the Indo-Pacific region is particularly compelling for Mexican policy-makers and the private sector.³⁵

Mexico wants to expand its exposure to the tremendous potential of our region—the Indo Pacific region. It wants to hedge its high exposure to the US economy. It has also realised, as many Latin countries have, that the longstanding transatlantic economic opportunities are now being eclipsed by transpacific opportunities. I think that has been kicked along recently, unfortunately, in some ways, by what has been happening in Europe and with the European economy. So I think Mexico's interest in Australia as a regional gateway into the Indo Pacific is going to grow.³⁶

2.24 The Australia-Latin America Business Council (ALABC) noted that whilst the likelihood of Mexican investment in Australia should not be overstated, Mexican companies have global aspirations and the capacity to make substantial investments for the right assets. The ALABC highlighted the investments made by Mexican multinational companies such as Gruma and Cemex:

Gruma, a Mexican multinational corn flour and tortilla manufacturing company has been active in Australia since 1994. Initially through exporting its products to Australia, but subsequently through local production, primarily under the brands 'Mission' and 'Rositas'. In 2006, Gruma acquired two small tortilla-producing plants in Australia (Rositas Investments and Oz-Mex Foods) and in 2008 it invested a further US\$60m in the construction of a tortilla-producing plant in Epping, Victoria.³⁷

An even more significant investment was made by Cemex – a global player in the building and construction materials industry – in 2007, when the company paid around US\$15bn to acquire ASX-listed Rinker Limited, a company that had previously been spun-off by CSR Limited...the acquisition still ranks as one of the largest foreign investments ever made in Australia and proof that Mexican companies do have global aspirations and the capacity to invest in substantial amounts for the right assets.³⁸

35 Department of Foreign Affairs and Trade, *Submission 30*, p. 1.

36 Dr Brendon Hammer, First Assistant Secretary, Americas' Division, Department of Foreign Affairs and Trade, *Committee Hansard*, 29 October 2015, p. 56.

37 Australia-Latin American Business Council, *Submission 17*, p. 8.

38 Australia-Latin American Business Council, *Submission 17*, p. 8.

2.25 Trade and investment opportunities for Australian businesses are discussed in Chapter 5 of this report.