

Opinions

November 14, 2014

Mexican Economy on the Rise, and Expanding Korea-Mexico Economic Cooperation



Kisu Kwon

Ph.D., Head of Americas Team

Korea Institute for International Economic Policy 

Mexico is emerging as a new center of growth in the global economy. Some have taken to calling the country the “Aztec Tiger,” an analogy reminiscent of the “Asian Tigers” that led the economic miracle of East Asia.

Mexico can attribute its recent economic surge to two drivers. First would be the nation’s swift growth into a global production base, backed by the enhanced competitiveness of its manufacturing industry. Improved competitiveness thanks to moderate wage increases, enhanced manufacturing productivity, a stable exchange rate, China’s ongoing loss of competitiveness due to rising wages, the US manufacturing renaissance, an extensive FTA network with 45 countries, and better business environments; these are the foundations upon which Mexico has been

able to make the swift transformation into a global production base targeting not only North America, but also the South American and EU markets.

The second driver would be the successful reform measures rolled out by the Peña Nieto government. Seen as the largest scale of reform since the launch of NAFTA in 1994, Peña Nieto's reforms have covered an extremely broad scope, from industrial structure reform in the energy, telecommunications, and financial sectors to institutional reform in education, tax and labor. These structural reform policies have been especially garnering attention due to hopes that they may serve as a tipping point in the development of the Mexican economy. As it is, the reform measures are expected to propel the Mexican economy toward additional growth by up to 2 percentage points, maximum. Another reason Nieto's policies are in the spotlight is because the formerly closed energy and telecommunications markets have opened up to possibly reveal huge business opportunities. There are even some observations that say the direct and indirect investment effect of opening up Mexico's oil market will reach USD 1 trillion, and that it will have a more powerful economic impact than the US shale gas revolution.

Such developments in the Mexican economy have boosted its importance as an economic cooperation partner to Korea, but despite this the economic relationship between the two countries remains inactive. Currently, the Korea-Mexico economic relationship can be defined as severely unbalanced. The first imbalance can be found in the trade sector. Korea's trade with Mexico has been in the black since 1988, and the surplus has been expanding even further as of recent. According to trade statistics from Mexico for 2013, Korea's trade surplus is USD 11.9 billion, which is ten times the size of Mexico's global trade deficit in 2013 (USD 1.1 billion). Such imbalances carry over to investment. While Korea is investing more and more in Mexico, investment vice versa is largely insignificant. As of 2014, Mexico's investment in Korea is a mere 0.2% of what Korea is investing in Mexico. This may have been caused principally by the lack of interest shown by Mexican companies in Korea, but Korea's meager efforts to attract Mexican investment are also to blame.

Four strategies are required to push the currently unbalanced, stagnant Korea-Mexico economic relationship towards development. The first would be a "converged cooperation strategy," which creates the most powerful model for cooperation by converging the strong points that each country possesses in different areas. From the perspective of Korean companies, Mexico offers the advantage of being a forwarding base for manufacturing, and having a

broad FTA network, that would serve as the basis for strategies targeting not only the North American but also the South American market. On the opposite side, Mexican companies can devise strategies to enter Asian markets, for instance China, by using Korea's strength as a "gateway to Asia" on account of it being a logistics and FTA hub. The two countries could also draw from Mexico's powerful political and economic influence over the Central American and Caribbean region and its experiences in development cooperation, and combine this with Korea's experiences and know-how in successful economic development to formulate a triangular cooperation strategy providing joint assistance to neighboring countries.

Next would be a "win-win cooperation strategy" that utilizes Korea's comparative technology advantage and successful industrialization experiences to help solve the troubles in the Mexican economy. Policies and projects that support Mexican components and materials industries' insertion into the global supply chain by transferring Korea's economic development experiences and technologies will simultaneously solve Mexico's manufacturing sector challenges and create a friendly environment for Korean businesses seeking to enter the market. There should also be a cooperation program in the education and science and technology sectors, which urgently call for swift improvement in order to support Mexico's economic development. To this end, it will be necessary to host a "Korea-Mexico Education and Innovation Summit" attended by prestigious university and research institute CEOs from both countries, as a channel to enhance mutual understanding and identify cooperation demand in the education and science and technology sectors. Another measure deemed necessary is the establishment of a joint job training institute run by the Korean government and companies in collaboration with the Mexican government, to help solve labor shortages in Korean companies operating in Mexico and to support the education of skilled manpower by the Mexican government.

Third is an SME cooperation strategy. Enterprises will play a key role as an agent of cooperation in the expansion of economic cooperation between Korea and Mexico. SMEs, in particular, will play as much an important role as large conglomerates. This is because Mexico is the Latin American country with the highest number of Korean SMEs operating within its borders. As a demonstration of its strong interest in fostering SMEs, in 2014 the Mexican government founded INADEM (National Entrepreneur's Institute). Priority measures to consider in expanding cooperation between Korean and Mexican SMEs are the new establishment of a Korea-Mexico Technology Innovation Center, to support SME technology cooperation and

exports, and the creation of a Korea-Mexico SME Forum to serve as a network for SME co-operation.

The fourth and final strategy would be to form a basis for institutional cooperation. The best institutional infrastructure for expanding economic cooperation with Mexico is an FTA. Since 2008, Korea-Mexico FTA negotiations have been stalled following Mexico's decision to halt discussions, and have yet to resume. The grounds for this decision were that an FTA with Korea would bring more harm than good, due to the unfavorable balance in trade from Mexico's viewpoint. Fortunately, the Korean government's announcement to join the TPP (Trans Pacific Partnership) has rekindled the possibility of concluding an FTA with Mexico. As important as an FTA is, so is opening a direct flight route between the two nations. Not only would this save travel time and airfare, but it would also be a meaningful step that narrows the psychological distance between the people of Korea and Mexico. [KIEP](#)