

# Economy and political factors in Mexico



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Mexico located in the southern portion of North America, covers a period of more than two millennia. It covers an area of 1, 972, 550 sq. km. (761, 600 sq. mi.). Its estimated population is 112, 468, 855. Its language is Spanish and ethnic languages. According to some estimates, the population of the area around Mexico City is nearly 22 million, which would make it the largest concentration of population in the Western Hemisphere. Its capital is Mexico City (Distrito Federal).

Mexico is known for its fashion, socializing, sports and recreation, eating and recipes.

## **PESTLE ANALYSIS FOR MEXICO:**

The PESTLE Analysis report provides a holistic view of the country from historical, current and future perspectives. Insightful analysis on critical current and future issues are presented through detailed SCPT (strengths,

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challenges, prospects and threats/risks) analysis for each of the PESTLE segments. In addition, the PESTLE segments are supplemented with relevant quantitative data to support trend analysis.

## **POLITICAL FACTORS:**

Political section provides understanding about the political system and key figures relevant to business in the country and governance indicators. Here “The government” as referring to the federal government. It is the federal government that passes and enforces legislation concerning the entire country. Actions by the federal government affect a large number of firms and are consistent across state boundaries. Environmental analysis, however, should not overlook actions by both state and local governments.

Regulations concerning many business practices differ between states. Tax rates vary widely. Laws regarding unionization (e. g., right-to-work states) and treatment of homosexual workers differ between states.

Local governments have the potential to affect business practices significantly. Some local governments may be willing to provide incentives to attract business to the area. Some may build industrial parks, service roads, and provide low-interest bonds to encourage a desirable business to move into the community.

President Calderon’s National Action Party currently is the largest party in the Senate but lost its majority in the Chamber of Deputies in the July 2009 elections. The next national elections-for the president, all 128 seats in the Senate, and all 500 seats in the Chamber of Deputies-will take place in July 2012. In 2010, elections were held in 14 of Mexico’s 31 states.

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Poverty in Mexico is caused by individual, geographic and political factors. Main cause of poverty is due to political economy of the country. The International Monetary Fund and World Bank-prescribed structural adjustment policies have been applied in Mexico because the government doesn't carry out enough policies to encourage successful development. They cannot, for these international institutions lend money to Mexico on the condition that the nation open up its economy and cut social expenditures to repay the loans. The IMF and World Bank programs are supposed to reduce poverty, but actually they are increasing it. Therefore, Mexico needs a new political economy designed by Mexican economists and politicians, people who are committed to Mexico and to the future of its society. WTO Membership of trading partners increases the political costs of supplying administered protection.

## **ECONOMIC FACTORS:**

GDP (official exchange rate): \$1 trillion (2010 est.); \$876 billion (2009); \$1.088 trillion (2008).

Per capita GDP (PPP method): \$13,542 (2009 est.); \$14,534 (2008).

Annual real GDP growth: 4.5% (2010 est.); -6.5% (2009); 1.3% (2008); 3.3% (2007); 5.1% (2006); 3.2% (2005).

Inflation rate: 4.6% (2010 est.); 3.57% (2009); 6.5% (2008); 3.8% (2007); 3.4% (2006); 3.3% (2005).

Natural resources: Petroleum, silver, copper, gold, lead, zinc, natural gas, timber.

Agriculture (4% of GDP): Products–corn, wheat, soybeans, rice, beans, cotton, coffee, fruit, tomatoes, beef, poultry, dairy products, wood products.

Industry (31% of GDP): Types–food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables.

Services (64% of GDP): Types–commerce and tourism, financial services, transportation and communications.

Trade (goods): Exports (2009)–\$230 billion f. o. b. Imports (2009)–\$234 billion f. o. b. Exports to U. S. (2009)–\$185 billion (80% of total). Imports from U. S. (2009)–\$112 billion (48% of total). Major markets–U. S., EU (5% of total), Canada (3.6% of total).

Economic section deals with the economic story of a country that provides a balanced assessment of significant macro-economic issues.

Economic factors refer to the character and direction of the economic system within which the firm operates. Economic factors include the balance of payments, the state of the business cycle, the distribution of income within the population, and governmental monetary and fiscal policies. The impact of economic factors may also differ between industries.

Foreign direct investment (FDI) in Mexico for 2009 was \$14.4 billion, down 51% from the previous year. The Mexican Government estimate of FDI for 2010 is \$15 billion to \$20 billion.

Mexico is classified by the World Bank as an upper-middle-income country. Poverty is widespread around 44% of the population lives below the poverty line and high rates of economic growth are needed to create legitimate economic opportunities for new entrants to the work force. The Mexican economy in 2009 experienced its deepest recession since the 1930s. Gross domestic product (GDP) contracted by 6.5%, driven by weaker exports to the United States; lower remittances and investment from abroad; a decline in oil revenues; and the impact of H1N1 influenza on tourism.

Mexico is a major recipient of remittances, sent mostly from Mexicans in the United States. Remittances average around U. S. \$21 billion per year, and are the country's second-largest source of foreign currency, after oil. Most remittances are used for immediate consumption—food, housing, health care, education—but some collective remittances, sent from a U. S. community of migrants to their community of origin, are used for shared projects and infrastructure improvements.

Mexico has grown with an annual average rate of 4%, even with the changes from an inward-looking developing economic strategy towards a more open economy with a far-reaching trade liberalization program.

Mexico is the United States second-largest export market and third-largest trading partner. Top U. S. exports to Mexico include electronic equipment, motor vehicle parts, and chemicals. Trade matters are generally settled through direct negotiations between the two countries or addressed via World Trade Organization (WTO) or North American Free Trade Agreement (NAFTA) formal dispute settlement procedures. The most significant areas of

friction involve agricultural products as well as cross-border trucking. Mexico is an active and constructive member of the World Trade Organization, the G-20, and the Organization for Economic Cooperation and Development. The Mexican Government and many businesses support a Free Trade Area of the Americas.

## **SOCIAL FACTORS:**

Social section enables understanding of customer demographics through income distribution, rural-urban segmentation and centre's of affluence, healthcare and educational scenario.

Mexico is the most populous Spanish-speaking country in the world and the second most-populous country in Latin America after Portuguese-speaking Brazil. About 76% of the people live in urban areas. Many Mexicans emigrate from rural areas that lack job opportunities—such as the underdeveloped southern states and the crowded central plateau—to the industrialized urban centers and the developing areas along the U. S.-Mexico border. According to some estimates, the population of the area around Mexico City is nearly 22 million, which would make it the largest concentration of population in the Western Hemisphere. Cities bordering on the United States—such as Tijuana and Ciudad Juarez—and cities in the interior—such as Guadalajara, Monterrey, and Puebla—have undergone sharp rises in population in recent years.

The sociocultural dimensions of the environment consist of customs, lifestyles, and values that characterize the society in which the firm operates. Socio-cultural components of the environment influence the ability of the firm to obtain resources, make its goods and services, and function

within the society. Sociocultural factors include anything within the context of society that has the potential to affect an organization. Population demographics, rising educational levels, norms and values, and attitudes toward social responsibility are examples of sociocultural variables.

Mexico has made great strides in improving access to education and literacy rates over the past few decades. According to a 2006 World Bank report, enrollment at the primary level is nearly universal, and more children are completing primary education. The average number of years of schooling for the population 15 years old and over was around 8 years during the 2004-2005 school year, a marked improvement on a decade earlier—when it was 6.8 years—but low compared with other Organization for Economic Cooperation and Development (OECD) countries.

## **TECHNOLOGICAL FACTORS:**

Technological section provides strategic information on technology and telecom, technological laws and policies, technological gaps, patents and opportunity sectors in the country.

Cooperation between the United States and Mexico along the 2,000-mile common border includes state and local problem-solving mechanisms; transportation planning; and institutions to address resource, environment, and health issues.

Technology can change the lifestyle and buying patterns of consumers. Recent developments in the field of microcomputers have dramatically expanded the potential customer base and created innumerable opportunities for businesses to engage in business via Internet. Whereas

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computers were traditionally used only by large organizations to handle data processing needs, personal computers are commonly used by smaller firms and individuals for uses not even imagined fifteen years ago. Similarly, new developments in technology led to a reduction in prices for computers and expanded the potential market. Lower prices allow computers to be marketed to the general public rather than to business, scientific, and professional users-the initial market.

Technology also changes production processes. The introduction of products based on new technology often requires new production techniques. New production technology may alter production processes.

There is little doubt that technology represents both potential threats and potential opportunities for established products. Products with relatively complex or new technology are often introduced while the technology is being refined, making it hard for firms to assess their market potential. When ballpoint pens were first introduced, they leaked, skipped, and left large blotches of ink on the writing surface. Fountain pen manufacturers believed that the new technology was not a threat to existing products and did not attempt to produce ball-point pens until substantial market share had been lost.

Another technology, the electric razor, has yet to totally replace the blade for shaving purposes. Perhaps the difference is that the manufacturers of blades have innovated by adding new features to retain customers. Manufacturers of fountain pens did not attempt to innovate until the ballpoint pen was well established.

It is quite difficult to predict the impact of a new technology on an existing product. Still, the need to monitor the environment for new technological developments is obvious. Attention must also be given to developments in industries that are not direct competitors, since new technology developed in one industry may impact companies and organizations in others.

## **LEGAL FACTORS:**

Legal section provides information about the legal structure, corporate laws, laws to start a new business and the tax regime.

Legal dimension of the general environment also affects business activity. The philosophy of the political parties in power influences business practices. The legal environment serves to define what organizations can and cannot do at a particular point in time.

The legal environment facing organizations is becoming more complex and affecting businesses more directly. It has become increasingly difficult for businesses to take action without encountering a law, regulation, or legal problem. A very brief listing of significant laws that affect business would include legislation in the areas of consumerism, employee relations, the environment, and competitive practices.

Many of the laws also have an associated regulatory agency. Powerful U. S. regulatory agencies include the Environmental Protection Agency (EPA), the Occupational Safety and Health Administration (OSHA), the Equal Employment Opportunity Commission (EEOC), and the Securities and Exchange Commission (SEC).

The 1917 constitution provides for a federal republic with powers separated into independent executive, legislative, and judicial branches. The president is elected by universal adult suffrage for a 6-year term and may not hold office a second time. There is no vice president; in the event of the removal or death of the president, a provisional president is elected by the Congress. The Congress is comprised of a Senate and a Chamber of Deputies. Consecutive re-election are prohibited in this economy. Senators are elected to 6-year terms, and deputies serve 3-year terms. The Senate's 128 seats are filled by a mixture of direct-election and proportional representation. Supreme Court justices are appointed by the president and approved by the Senate.

Estimates of the cost of compliance vary widely, but could well exceed \$100 billion annually. Many of these costs are passed to consumers. However, costs of legal expenses and settlements may not be incurred for years and are not likely to be paid by consumers of the product or owners of the company when the violation occurred. Still, potential legal action often results in higher prices for consumers and a more conservative attitude by business executives.

### **ENVIRONMENTAL FACTORS:**

Environmental section provides information on the country's performance on environmental indicators and policies. Mexico has a history of cooperation on environmental and natural resource issues, particularly in the border area, where there are serious environmental problems caused by rapid population growth, urbanization, and industrialization.

There have been several studies of the relationships between environmental factors, particularly air pollution, and attacks of asthma. Most of these studies have ignored the potential confounding effects of aeroallergens such as pollens and fungal spores. We report a statistical analysis of the relationships between emergency admissions for asthma to a hospital in Mexico City and daily average airborne concentrations of pollen, fungal spores, air pollutants (O<sub>3</sub>, NO<sub>2</sub>, SO<sub>2</sub>, and particulates) and weather factors. Asthma admissions had a seasonal pattern with more during the wet season (May-October) than the dry season (November-April). There were few statistical associations between asthma admissions and air pollutants for the three age groups studied (children under 15 years, adults, and seniors [adults over 59 years]) in either season. Grass pollen was associated with child and adult admissions for both the wet and dry seasons, and fungal spores were associated with child admissions during both the wet and dry seasons. The analysis was done with environmental data averaged over the day of admission and the 2 previous days. Our results suggest that aeroallergens may be statistically associated more strongly with asthma hospital admissions than air pollutants and may act as confounding factors in epidemiologic studies.

### **COMPETITIVE ADVANTAGE FOR MEXICO USING PORTAR DIAMOND:**

Factor conditions are human resources, physical resources, knowledge resources, capital resources and infrastructure. Specialized resources are often specific for an industry and important for its competitiveness. Mexico generates significant revenue from the production of beef, poultry, pork, and

dairy products. Although private investment in natural gas transportation, distribution, and storage is permitted, Pemex remains in sole control of natural gas exploration and production. Despite substantial reserves, Mexico is a net natural gas importer.

Demand conditions in the home market can help companies create a competitive advantage, when sophisticated home market buyers pressure firms to innovate faster and to create more advanced products than those of competitors. Technology can change the lifestyle and buying patterns of consumers. Many new developments in technology led to a reduction in prices for computers and expanded the potential market. Lower prices allow computers to be marketed to the general public rather than to business, scientific, and professional users—the initial market.

Related and supporting industries can produce inputs which are important for innovation and internationalization. One of the most recent joint efforts by governments to influence business practices was NAFTA. The agreement between the United States, Canada, and Mexico was intended to facilitate free trade between the three countries.

Firm strategy, structure and rivalry constitute the fourth determinant of competitiveness. The way in which companies are created, set goals and are managed is important for success. U. S. A. Vs Mexico greatest rivalry in sports. The numerous joint ventures between U. S. and Japanese automobile manufacturers could have been termed anticompetitive by a less pro-business administration. Changing relationships between the United States and other countries may alter the ability of firms to enter foreign markets.

The United States' establishment of trade relations with China in the 1970s created opportunities for many firms to begin marketing their products in China. The rise of Ayatollah Ruhollah Khomeini to power in Iran altered the lives of many Iranian citizens. Wine, vodka, music, and other forms of entertainment were prohibited. Black markets provided certain restricted items. Other products, such as wine, began to be produced at home. Anti-American sentiments throughout the country showed the hostility of many citizens. Non-American firms thus had an opportunity to capitalize on the anti-American sentiments and to provide goods and services formerly provided by U. S. firms.

Government can influence each of the above four determinants of competitiveness. Regulations concerning many business practices differ between states. Tax rates vary widely. Laws regarding unionization (e. g., right-to-work states) and treatment of homosexual workers differ between states. Local governments have the potential to affect business practices significantly. Some local governments may be willing to provide incentives to attract business to the area. Some may build industrial parks, service roads, and provide low-interest bonds to encourage a desirable business to move into the community.