

# Analyze the economy of mexico economics essay



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## **Introduction**

In this report, we will analyze the economy of Mexico. The following steps would bring you to understand more about this place. According to those information, you will know how the economy growing in Mexico, the value of place and learn something from here. First, we would like to introduce the place about its information background. Then, we talk about the hospitality industry and leisure in the world and the hospitality industry and leisure in Mexico as well. The PESTLE analysis of Mexico's environment, investment in private and public also deal with and deep realize the income of Mexico that including the hospitality income, tourism income, personal income and employment price. To make the discuss that the economic development from 2000 until now. Then we will talk about the balance of payment and exchange rate. After that we will mention the globalization and sustainability with Mexico. Also to analyze the SWOT of Mexico, deal with the economy of Mexico weather this place has value to continue investment. Finally, we talk about three big issues in Mexico which are crime, pollution and climate. Those may bring the influence with Mexico economy.

## **Background information – Mexico**

### **Location**

Mexico is located in south part of North America and has 31 states and one federated area. Mexico links Texas, New Mexico, Arizona and California, those are bordered on the north of Mexico and south of Mexico are Guatemala. The size of Mexico is 1972550 square kilometers that included lots of uninhabited island. It's near one- fifth the size of the USA also three times the size of Texas. The Capital is Mexico City which is located the south

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of country. The economy of Mexico developed fast that is number 14 of order in IMF (International Monetary Fund).

## **Population**

Mexico is the first Spanish Country which has the most populous and it is also the second number of population in Latin America. In 2003, United Nations counted the population of Mexico around 103, 457, 000. The number of population in the world is eleventh. It was about 5% of population over 65 year of age in this year and 33% of population under 15 year of age. The ratio of man to women is 24: 25. The growth of population is 3. 1 % which is highest rate in the world during 1970 to 1980. According the data from United Nations, the growth of population rate was 1. 45% per year of 2000-2005 and the density of population was 52 per square kilometers within 2002. According to the statistics in 2010, the population was growing to 112, 468, 855.

## **Culture**

Spanish is national official language cause by the colonization. But there are many languages combined into Spanish that is different than usual. In addition their official language, there are 62 indigenous languages. The culture of Mexico mixes the local legend and Spanish culture and arts. About the religion, there isn't set up the official religion in Mexico. Due to the colonization by Spanish cause Roman Catholicism which is brought from Spanish to be the main religion. According to the census data, there are 95% to believe Christian and 89 % are Roman Catholics.

## Resource

The crude oil was abundant in Mexico which is the seventh largest producer in 2009. It's also the second large supplier of oil and gas for USA that is the largest income of Mexico comes from. Nowadays, there is a problem about the reserve of oil decline that may impact their economy. In addition to above resources, minerals are important. Mexico is one of the most geologically dynamic areas in the world. Such as the silver which is ranked fifth number in the world.

## Hospitality industry and leisure in the world

The hospitality industry is growing fast and main service department in the world. There is lots of different service industries included in hospitality such as food service, hotels and tourism. According the research, we can know many of countries' economy are come from the tourism which is mutual influence with the hotel industry. In this part, we will deeply deal with the hotels industry in the world. Then the follow information is talking about the different and special hotels in the world:

### Shoe hotels:

The feature of hotel is built into the giant shoe and this idea was come from the story Old woman live in the shoe. The largest shoe hotel is in Japan and the most popular shape is platform dancing shoe of women.

### Ice and snow hotels:

The feature of hotel is built with the ice, every winter they need to rebuild the hotel cause by melting in each spring.

### Underwater hotels:

The feature of hotel is building under the water; you may see the view of sea directly in the guest room.

## **Hospitality industry and leisure in Mexico**

In Mexico, tourism is very important and large industry. The place is number one destination for foreign travelers in the area of Latin America and number two destination in the area of whole America. It is ranked number ten of international travelers visited destination. It had over 22.6 million traveler arrival Mexico. The economic contribution of tourism increase to 13.2% and GDP (Gross Domestic product) increase 8% in 2008. The GDP of hotel industry was 17%.

There are two features of location in hotel industry, one is near the beaches and another is located in cities. The following information is about kind of hotel in Mexico:

### Intelligent Hotels

### Grand Tourism

### Resort Hotels with Spa

### Boutique Hotels

### Hotels of Limited Services:

### No Category hotels:

## **Economic Development**

In this part, we will talk about the economy of development from the 2000 to now in Mexico. In beginning of 21 century, Mexico paid back all the debts to the IMF (International Monetary Fund) and received the largest number of directly investment from other countries. Although the economy of Mexico declined cause the lower demand in 2001 and 2002. According to the economy program, the government tried to reach the goals of program and improved their financial states to raise high competitiveness and promote productivity in 2002. From the year to 2006, the government looked for some solutions to reduce the problem of financial deficit and public debts. Although the government planned to limit the costs, the social expenditure still needed and increased. In order to eliminating the issue of indigence, the government thought to change the tax reform and attracted more competitive by telecommunication, also allowed to invest by private in energy. Then Mexico joined in the WTO (World Trade Organization) and the beginning of the Doha Trade also contained. A free trade was supported by government in the region of America. After in 2009, Barack Obama wanted large people of illegal immigrants in UAS to go down that might help the development of economy in Mexico by his aspect. The biggest important issue of economic development in Mexico is sustained flow of labor which keeps in northern area. And the flow of principal in southern area need to maintain stable, both would keep the economy running. Many of economic developments are based on reformation. Such as the free trade, NAFTA (North America Free Trade Agreement) had obvious benefits. But the price of raw materials was raised to influence the economic development that began the recession in this year. The period of 2010 and 2011 is recovery, with GDP

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growth of 5½ per cent in 2010 and 4 ½ per cent in 2011. Although the export would be slow this followed the exceptional rebound in 2010, the strong domestic demand kept the recovery of Mexico.

## **Environmental: PESTEL**

### **Political**

I. The important economic and trade policies in Mexico: included attracting foreign investment to create jobs, promote exports, encourage the development of high-tech industries and small enterprise; increased infrastructure, oil and natural gas investment, eliminate the state of drug abuse to maintain public security, and thus improve competitiveness, employment rate and tax reform to resolve the problem of tax evasion behavior.

II. Important economic and trade measures in Mexico: Mexican government in September 2009 launched the economic plan of 2010 for to improve their economy, the plan can be divided into two sections that one is fiscal Reform and one is competitive reform.

The goals of fiscal reform section: To intensify the public finances in the short term, to create a stable income for supplanting dwindling oil taxes, motivate their economic recovery and growth. This fiscal reform measures to change the tax system, the involved tax including business income tax (ISR), cash deposits withholding tax (IDE), value added tax (IVA), the production and service at a special tax (IEPS) and a flat tax (IETU), and it also created a new tax in the tax system.

The main measures include:

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1. Value-added tax (IVA): increased from 15% tax rate to 16% tax rate.
2. Beer tax: increase the beer tax rate from 25% to 28% began in 2010 until 2012; the beer tax rate will decrease to 27% in 2013, in 2014 will decrease to 25%.
3. Spirits tax: alcohol concentration exceeding 20 degrees of spirit that levied 3 Peso per liter for tax.
4. Cigarette tax: levied 0.8 Peso per cigarette in 2010, in 2013 will increase to 2 Peso per cigarette.
5. Lottery tax: from 20% tax rate increased to 30% tax rate.
6. Communications tax: public network communications services tax rate was 4%.
7. Personal and business income tax: the maximum tax rate will be increased from 28% to 30% began in 2010 to 2012, the maximum tax rate will decrease to 29% in 2013 and decrease to 28% in 2014. The maximum tax of primary industries changed to 21%.
8. Cash deposit withholding tax: tax rate from 2% increased to 3%, the minimum deposit amount from 25 000 Peso decrease to 15, 000 Peso.
9. To reduce tax for poor people: to levied 2% tax to all of the sales goods and services, and the poor people no need to pay the tax of the export goods.
10. Oil and natural gas extraction tax: tax rate from 20% dropped to 15%.

## **Economic**

The United Nations Economic Commission for Latin America published the “2010 survey of the economic situation in Latin America” report in 2010. 12.



23, the report indicated the Latin American economic growth of 6% in 2010 that reversed the trend of economic decline, the report estimated that Latin American economy will continue to grow in 2011 and the increase rate is 4.2%. In 2010, the South America was the fastest region where grew economies in Latin America and the growing rate was 6.6%; Mexico and Central American countries was the second where growing rate was 4.9%. The report also predicted that Mexican economic growth of 4.6% in 2011. In 2010, Mexican annual GDP growing rate was 5.5% that is the highest rate in the past ten years, data show that the fourth quarter of last year, Mexican manufacturing sector output value growth of 6%, construction output value growth of 4.3% and the hospitality sector growth of 5%. Mexican National Statistics indicated that Mexico has moved out from the economic recession which was brought by the global financial crisis in 2009. The International Monetary Fund (IMF) predicated Mexican GDP grow by 4.5% in 2011.

## **Social**

Mexico is the most populous Spanish-speaking country which also is the second most populous country in Latin America, entire country has about 60% population is Indo-European mestizos, 30% population is Indian descendant, 9% European descendant and 1% another nation. Mexico is a Catholic country, entire country has 89% of the population is Catholic, but there also has 6% of population believe in the various Protestant, the remaining 5% of the population believe in other religions or no religion. The total population of Mexico is 103.3 million, there is the third most of population in Americas, after the United States and Brazil and ranked eleventh in the world. There has 12,000 churches across the country, almost

every three or four blocks there has a church, so Catholic has important influence in Mexico and effect Mexican habits directly, and Mexican realize purple is unlucky color.

## **Technological**

Mexico has a technical standard for protect Mexicans and animal or plant life, environmental and consumer mandatory. Mexico is the member of the General Agreement on Tariffs and Trade (GATT). The technical standards in Mexico divided into voluntary standard and mandatory standards. Mandatory standards (NOM) also known as the official Mexican standards, Its main purpose is to protect human and animal or plant life or health, environmental, or prevention of fraud on the goods, services or production. Voluntary standard also known as “ Mexico Standard”(NMX), mainly used to guide consumers, producers as well as a tool improve the quality.

Mexico Standard is composed by 6 private unite and 9 government departments

Mexico’s national standards system by the six private units and 9 government(Ministry of Economic Affairs, Ministry of Agriculture, Ministry of Communications, Energy, Environmental Protection, Ministry of Health, Labor, Tourism and Social Development). “ Mexico’s National Standardization Committee” to formulate policies, coordinates implementation of the standards, and by standardizing the annual plan. It is also responsible for the development and implementation of technical standards body, which represents the Mexican scientific research, industry, trade and consumer interests in standardization. Currently, the Mexican government thinks that

the Mexican standard has gap with ISO or other international standards. In the electronics industry, the standard match rate with ISO or other international standards is 80%, but some industry only 10% or 20% (e. g. pollutant Emission standards, the determination of origin and travel services, etc.). “ Mexican Official Standard” was about 65% correspond with international standards.

## **Environmental**

(1) Geographical environment : Mexico situate in the south of the north America, its north side adjacent with U. S, the south side adjacent with Guatemala and Belize, the east side adjacent with Gulf of Mexico and the Caribbean, the west side adjacent with Pacific Ocean, so it became the geographical hub for connecting the North American and South American. Mexico became an attraction for the foreign investors because of its vast place, large population, abundant labor, low cost of labor and land and it also is a member in the North American Free Trade Agreement (NAFTA).

(2) Energy: Mexico has abundant oil, water, electricity, natural gas and other energy supply. Mexico is the world’s sixth largest oil producer. Calderón government announced a plan to cut the industrial electricity price rates in 2009 for promoting their economic (high-voltage decreased 20%, medium-voltage decrease 17%, low voltage and commercial power decrease 9%), and allow businesses to choose a fixed electricity rate for 12 months with the help manufacturers reduce costs.

(3) Transportation: Mexico’s transport and logistics facilities are fairly well developed, road network is 55, 000 miles in length which connecting the

nation's major consumption and production areas, the railway network is about 20,000 in length. And there has a very efficient air services, there has about 40 domestic airports, 32 international airports; the main international airports are located at Mexico City, Monterrey, Guadalajara, Leon, Acapulco, Cancun, Merida and so on. The major ports in east coast including Tampico, Veracruz, Coahuila and Progreso; the main ports in west coast including Manzanillo, Lazaro Cardenas, Guaymas, La Paz, Mazatlan and Salina Cruz. However, the national highway and railway network has not been established, high transportation costs.

## **Legal**

When make an investment in Mexico, the labor law is an important law to be considered. Mexican labor laws and regulations formulated the provisions of labor contracts to protect the labor right, whether workers are Mexicans or foreigners, as long as he is in Mexico to provide labor to the companies or the individuals, their rights would be protected. In Mexico, the labor contract can have the following three types: formal labor contracts, temporary labor contracts and labor contracts on a project. Mexico's Federal Labor Act provides a provision for giving a minimum treatment to the labor. The provision including: morning shift should be within six a. m. to eight p. m., daily working hours up to 8 hours or 48 hours a week; night shift should be within 8 p. m. to 6 a. m., daily working hours up to 7 hours or 42 hours a week; daily working hours up to seven and half hours or 45 hours a week for mixed shift, but the night working hours cannot exceed three and a half hours. The break time cannot be less than half hour in daily; overtime cannot more than three hours per day and not more than three times per week.

## **Investment**

Mexican law does not allow foreign investment in the following areas: petroleum and petrochemical; electricity; nuclear energy; radioactive minerals; telegraph; wireless telegraphy; Post; small airports and heliports monitoring, fishery and fishing regulation. Following the economic field only allow Mexicans and Mexican enterprises to invest in business: inland transport including passenger and cargo, not including postal and courier services; gasoline retail; radio broadcasting services; credit unions; banking; specific professional performance and Technical services. Except as provided by law, foreign investment is not allowed to involve in the above-mentioned economic activities directly, nor through cooperation, contract, partnership, or other means in operation of the business or control. Mexican law limits on the proportion of foreign investment: foreign investment can reach 10% in the production-oriented enterprises; 25% in domestic aviation and special air transport. Up to 49% foreign investment in the following areas: insurance companies, foreign exchange companies, bonded warehouses, financial leasing companies, agents; fixed asset investment company shares; investment company; pension companies; newspaper company; agriculture, large farms; freshwater, coastal and fishing in the exclusive economic zone, excluding fisheries; complete port management; engaged in the development of inland and coastal shipping business, do not include port Construction, preservation and operation of equipment; ships, aircraft, railway equipment, supplies of fuel and lubricants; telecommunications franchise companies.

Limited liability Company: the number of shareholders required for the 2-50 people; required minimum capital of 3,000 pesos; shareholder liability is limited to the amount of money invested in the company; the name of the company has special requirements.

Co., Ltd.: 2 or more the number of shareholders, but no upper limit; minimum capital amount of 50,000 pesos; shareholder liability is limited to their own funds to invest in the company; the name of the company has special requirements.

## **Mexico Income**

In 2010, annual GDP is 13137.172 billion Pesos at current currency rate and increase 10.1%; 88607.03 billion Pesos at 2003 constant currency rate and increase 5.5%. Bank of Mexico indicated that the Mexican GDP change to the U.S. dollar on average exchange rates is about 1039.903 billion U.S. dollars. Mexico's oil revenues in 2011 expected to grow by 4.5%, total income was expected to rise 3.9%.

## **Tourism Income**

According to statistics, the January to February in 2010, there were 18,506,000 visitors to travel to Mexico, it was a growth of 7.2% at the same period in 2009, and the total income was 9,831,000,000 U.S. dollars that compared with 9,181,000,000 U.S. dollars in 2009 which increased 650 million dollars. The total consumption of tourists in Mexico was 7,710,000,000 U.S. dollars and it was increase 10.3% compared with 2009. Among them, the cruise tourism generated 428 million U.S. dollars revenue for Mexico and it was 22.1% increased that compared with 2009. The number

of cruise passengers reached 493.6 million and it was 12.3% increased that compared with 2009. In 2010, the RevPAR of hotel in Mexico has 29.5% increased that compared with 2009 and it reached to 67.47 U.S. dollars.

## **Globalization Economy**

In recent year, the world multi-polarization and economic globalization develop become more faster. To facing the opportunities and challenges which are brought by economic globalization, Mexico tries to seek the profit, open wider to the outside world and it actives to cooperate with the other countries in the world.

In the tide of globalization, Mexico firmly grasp the opportunity, early in 1992, Mexico sign up the North American Free Trade Agreement with United States and Canada, it comes into being 360 million consumers and the annual gross national product in Mexico is more than six trillion U.S. dollars in the world and it become the largest free trade area in the world. Mexico tries to utilize the advances technology and huge market in United States and Canada, to develop the export oriented enterprises. Otherwise, Mexico is mainly to focus on the foreign trade to promote economic development. This action can improve the Mexico's competitiveness in the international market and increase the foreign trade. According to Mexican government statistics, the Mexican foreign trade export volume is increased to 117.5 billion U.S. dollars in 1998 and the foreign trade export volume is 298.36 billion U.S. dollars in 2010. To compare the export volume in 2009, it has 29.8% increases in Mexico. Mexico is continued to maintain the biggest exporter status in Latin America.

Until now, Mexico signed the Free Trade Agreement in twelve times and it's involved with 44 countries in the world. These agreements constitute a multilateral trade network for the Mexico economy and it is a benefit for the competition in the globalization of trade and it offers more opportunities to develop in Mexico.

However, the globalization economy also poses a challenge in Mexico. As Mexico is over reliance on the export trade, the outbreak of the Mexican financial crisis in 1994 made the negative GDP growth of 6.2% in Mexico and the inflation rate as high as 52% and there were 70 billion U. S. dollars economic loss. In 1997, the economy was also affected by the Asian and Russian financial crisis. Otherwise, globalization has made Mexico over dependent on the U. S. economy, the domestic polarization between rich and poor did not improve and it has made the trade in competition with the industrialized countries are still in a passive position.

To enhance the ability to prevent and withstand risks, Mexican governments increase the opening to the outside world and cooperate with more international countries, Mexican government also encourage businesses to participate in the competition and strengthen their own protection. Otherwise, Mexican government is also accord to rectify the financial system, improve the laws of economic and the establishment of risk prevention mechanism to overcome the negative effects of globalization.

## **Sustainability Economy**

Most of developing countries that are facing a big challenge that is millions of people are living in poverty such as Indonesia, India, China, Brazil and



Mexico also. It is a relevant problem for the sustainable economy in Mexico. The policies of sustainability in Mexico not only help the people to recover the acute fiscal crisis; it is also helpful to solve the most entrenched human problems.

### 1. Gain the competitiveness

Mexico needs to increase more competitive on the world economy.

Renovating the economy in Mexico is based on sustainable principles; it is mainly to focus on the effective use of resources. It is helpful to attract the talent and investment from the other countries and make the economy in Mexico become more important and stable.

### 2. Resources and environment protection

As helping the poverty population and increase the profit are only a part of sustainable development that the main mission in sustainable development is decreasing the effects of global warming. Because of the poor and development countries are the most affected by global warming's disastrous effects such as flood and drought. For the example, Mexico suffered its worst drought and worst flood in 70 years in 2009.

Otherwise, the protection of natural resources and environment in Mexico are also important. As the tourism industry is the third biggest industry in Mexico, because of this reason, protecting and keeping the resources and environment healthy is extremely important for the Mexican government and the Mexico economy.

## **Elements affect Mexico Economy**

### **Crime**

The crime problem in Mexico is a large problem that is the most affective in Mexico economy and foreign investment. In 2008, there were more than 3000 people had been killed by the kidnapping, murder and the other organized crime in Mexico and 2700 people had been killed in 2007.

Otherwise, the inflation problem made the low income families in Mexico had been going on strikes and demonstrations for several weeks in 2008, the middle class are also join the protest because of the frequent violence problems and they are usually targeted by criminals in Mexico.

Because of the deteriorating of crime and security in Mexico, it may increase 5% to 10% cost in the company's operating. It may undermine the competitiveness of enterprises, reduce the employment opportunities and hinder the development of the national economy. In addition, the social environment is not stable in Mexico will also affect the confidence of foreign investors.

### **Pollution**

The pollution in Mexico is famous in the world. Because of the rapid development of economy in Mexico, there are most of plants are uncontrolled to built around the capital in Mexico, in addition, because of the religious reasons that is oppose any contraceptive measures, it makes the population and the demand of car are increase, for this reason to lead the air pollution problem in Mexico. Air pollution problems in Mexico stem from the industrial and geographical factors, which includes:

- Due to the high altitude and low oxygen, fuel is not easy to burn and release the pollution substances.
- The destruction of forest land and available resources.
- Automotive significant increase in emissions.

In 2010, the Gulf of Mexico oil spill that makes a large scales of water pollution. Most of fishes, birds, marine life and even plants are affecting by the oil spill, it also makes a large affect for the fishing industries.

## **Climate**

The climate in Mexico is not much difference in four seasons. But it is so unlucky that there are flood and drought in Mexico in 2009 and it is mainly depend on the problems of global warming. The drought in Mexico made more than 1. 16 billion U. S. dollars in agricultural losses in 2009. Because of the unstable climate, it may affect the economy growth and the foreign investment. In 2010, there has a climate conference which is locate in Mexico and it is mainly to find out the solutions to prevent the global warming with other countries.

## **S. W. O. T. analysis**

### **Strengths**

As Mexico is one of the most important economic hubs in Latin American and it is connect with America. The economy in Mexico is a free market economy with modern industries and agriculture. The Government in Mexico has implemented the privatization of economic and it is also encourage competition in the harbor, electricity, railway, gas and airport services etc. Because of the market in Mexico is open for the countries, it can attract

more investors to open their industries and investment. Otherwise, Mexico is located near America that is easy to trade with American industries.

Otherwise, the government in Mexico has signed the North American Free Trade Agreement that can be easier to cooperate with the other countries and increasing the foreign investment.

## **Weaknesses**

Because of the economy in Mexico is over reliance on the America, it may affect the trade in competition with the industrialized countries are still in a passive position. Otherwise, the open market in Mexico is easy to have the phenomenon of monopoly and oligopoly. It is happen in a variety of industries such as the telecommunications. As the large company controls the telecommunications industry, it may decrease the competitiveness and finally it may affect the economy in Mexico. Moreover, the problem of monopoly is also led to the wealth gap problem and widening the income gap. As there are more than 100 million people in Mexico, but it is nearly half of people are the poor households. Because the rich persons control the political and economic in Mexico, the resulting is the poor do not have opportunities to development. Otherwise, the monopolies of rich people are also decrease the competitiveness and the foreign investment in the market in Mexico.

## **Opportunities**

As Mexico is a free market economy, every investors are also have chance to invest and build their company in Mexico. In these few years, Mexican government is welcome the foreign investors and the government actively promote the industries on automobile, electronic, aerospace, the semi

conductors and other high tech industries. In addition, the President in Mexico - Calderon has been calling for investment in the public transport, expansion of port and airport, natural gas and power plant construction etc for the local investors. Because of the good location and the low labor cost, it is an opportunity for the investment and it's easier to expand into new market in Mexico. But the problem of wealth gap leads the unemployment, crime and social security problems.

## **Threats**

According to the research, there is 5.5% economic growth in Mexico in 2010. The economic recovery in America is also boost the growth of exports in Mexico. Although Mexico's economy become to reduce the reliance on foreign markets, but the economic growth in America and the Europe countries are still to be a threats and it may affect the growth of economic development in Mexico. Otherwise, the problems of crime and climate are still the large threats which may affect the growth of domestic economy and the confidence of foreign investments.

## **Is Mexico fit for investment?**

As Mexico is one of the most important countries in Latin America and it is also open the market for the foreign investment, we are according to the PESTLE and analysis the economy environment then we find out the answer. Mexico is fit for investment. Although Mexico is facing most of problems such as crime, pollution and climate and it is also over reliance on the America economy, but the government is already has find out some solution to innovate their own problems. For the long term view, Mexic