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Research Article

THE EXPERIENCE AND RESPONSES OF MEXICO TO GLOBALIZATION, CHALLENGES AND OPPORTUNITIES

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A R T I C L E I N F O

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A B S T R A C T

The debate around whether or not Globalisation has been beneficial for a nation or not revolves around examples of success versus failure stories. One such case of success is Mexico, which was able to get out of the Exchange crisis of 1990s (Peso crisis) mainly due to the quick funds it received from international bodies. However most of these arguments generally ignore the importance of sound domestically fiscal policies that are required for such an intervention to succeed. Therefore the following paper seeks to answer the question: whether it was just the availability of international capital that helped Mexico out of the Peso crisis or if the implementation of the dynamic government policies had anything to do with it.

INTRODUCTION

Mexico is *"considered"* one of the cases of success for globalization; however this success was a result of well implemented decisive and dynamic policies by the government.

Ever since the great depression, Mexican government has followed a policy of import substitution industrialization. However this changed post 1982, with the country running a negative balance of payment, post this the government followed policies to liberalize the economy and make it more integrated globally. Financial liberalization of the economy led to privatisation of the banking sector which boosted the domestic lending, also it deregulated the regulations which allowed FDI into the economy, both of these lead to an increase in growth for the nation.

However the new system of open economy came under stress in 1993 (peso crisis) owing to the threat of devaluation of the currency investors pulled out of Mexico causing huge capital flight and a rapid devaluation of their currency. This made Mexico borrow an amount of $ *40* billion from the IMF and US. However the Mexican government implemented policies which ensured an efficient utilization of its debt, it managed to pay off its external debt by 1997 three years ahead of schedule.

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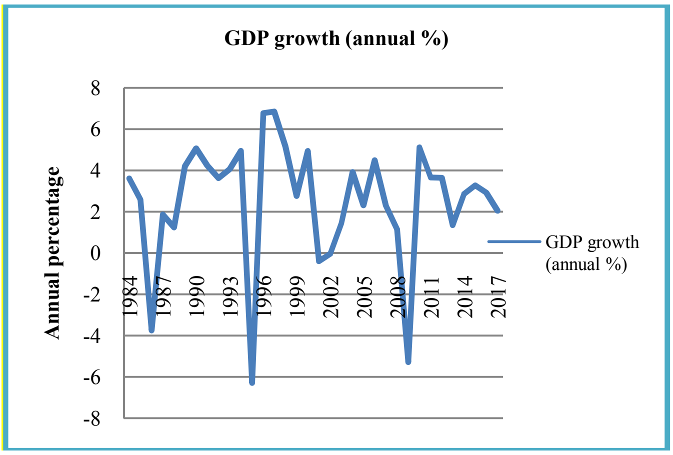
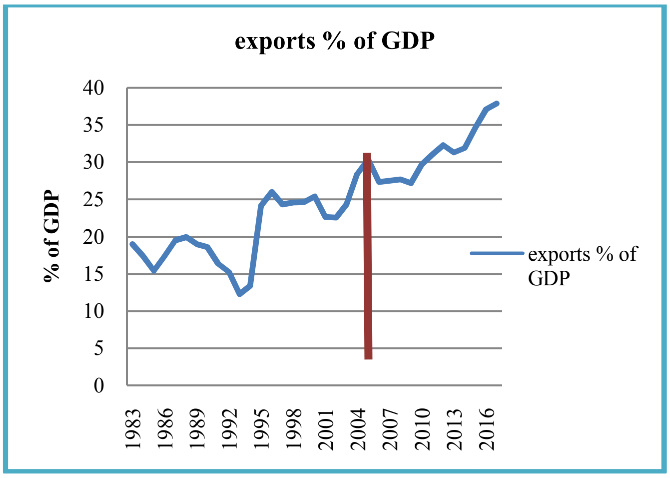
Impact of Globalization on the Economy

Growth (GDP %):

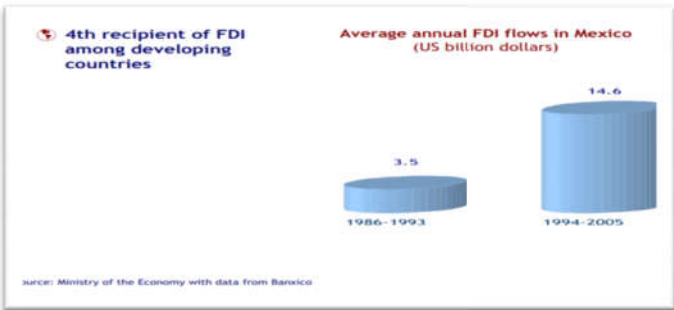


The annual growth rate has been negative for Mexican economy mainly during three times, firstly post the 1983 reform of liberalisation; secondly post the peso crisis of the 1993 and thirdly post the 2008 financial crisis. The main reason for this was because the economy faced a capital flight in 1993-1994 (which made them borrow) and in 2008 post the GFC investors pulled out of Mexico slowing down their growth. However a trend that emerged here was that the country managed to come out of the two crises, increase its GDP growth (increasing rate); it achieved this by implementing decisive policies (Post 1993) to boost export sector and reducing the regulations for FDI; however the recovery from 2008 was not as good.

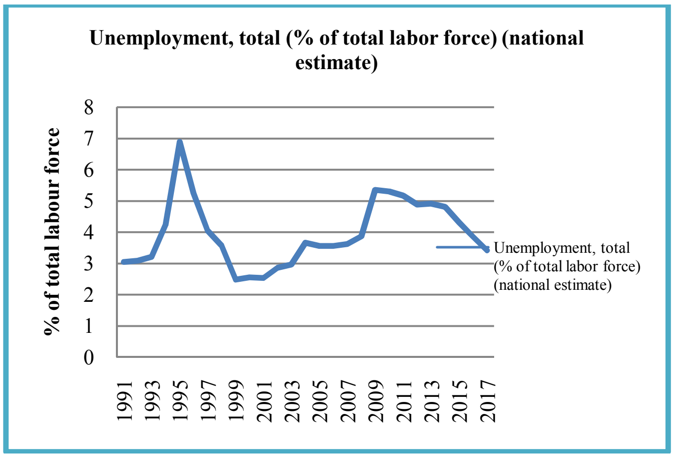
External sector: Mexico has *12 FTA* and *23 bilateral investment treaties*; this has lead to a free movement of Mexican goods and a lower restriction for FDI. The Debt raised post the peso crisis (1993) was used to give Fiscal and administrative incentives to the export sectors boosting their growth, FDI have also increased.



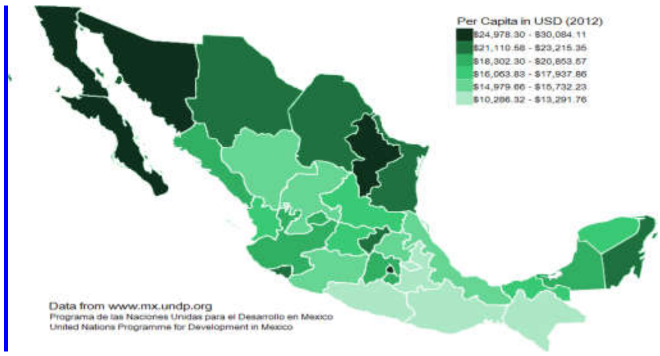
Even though the economy opened up in 1983, exports increased post 1993 as the government started implementing decisive policies to boost exports, FDI also increased by four times.



Employment and inequality: The greater amount of FDI and an increasing exports sector has made the growth of manufacturing and industrial sector stronger. This can be seen through the decreasing unemployment rate over the years, with more people finding jobs in secondary sectors. Post 1993 unemployment fell, owing to increasing FDI and Exports, However unemployment raised post 2008.

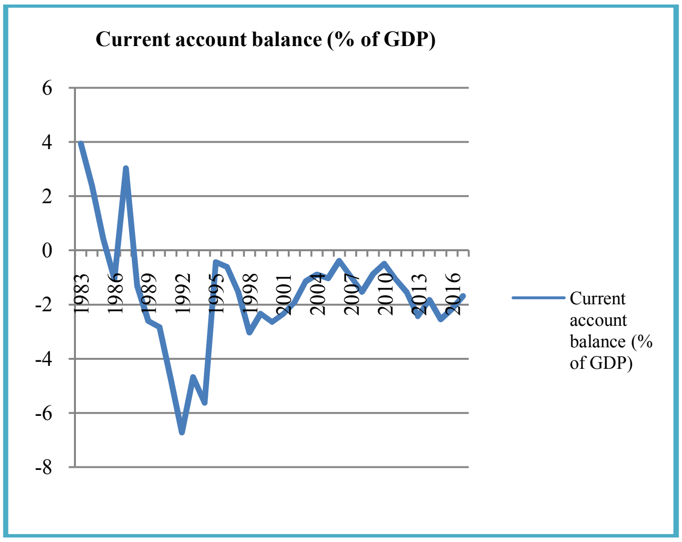


Critics of globalization have however argued that this increase in employment and wages is unequally distributed, with majority of inflow of FDI going to the northern part of the country the income inequality in the country has been increasing. Moreover rising inequality can be attributed to free trade agreements that cater to the rich and hurts the poor farmers who are unable to compete with the cheap produce form other countries like the US.

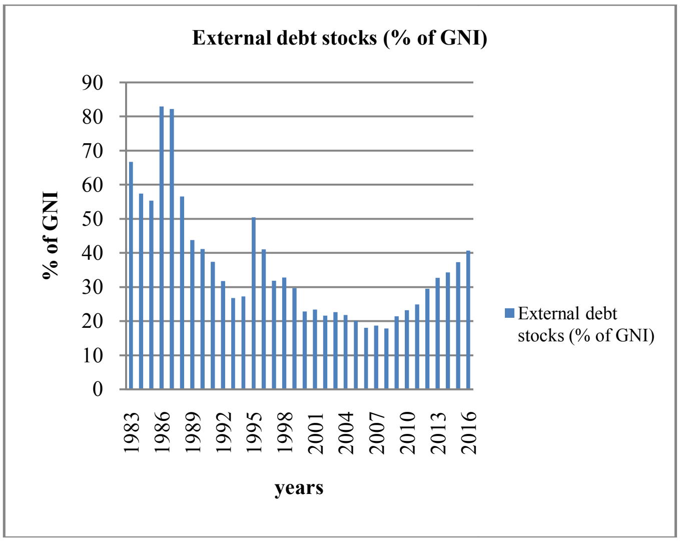


The problem with this argument is that it blames globalization rather than the actions of the government for the decrease in the exports of primary goods. Leaving the controversies (on quality) aside the government by proper policy can tackle both of these problem, firstly by introducing technology and ensuring standards government can help the domestic farmers compete at international level, policies for an even flow of FDI to different parts of the country would ensure symmetry in growth.

External Debt and Government Policy: As mentioned before Mexico borrowed a large sum post 1993 which it managed to pay back to the IMF before time, this it managed to do without getting into a debt spiral, it increased its exports and removed restrictions to encourage FDI. From the data also we can see that post 1993 the current account deficit has decreased.



However in the recent years the current account deficit of Mexico has started to increase, so has its external debt post the 2008 crisis, proponents against globalization have argued that this is the result 'debt spiral'. However, the above trends are not a direct result of globalisation alone but rather the inapt way the Mexican government in the recent years is adapting to changing world competition. Post 1993 the Mexican government with the prevailing global conditions implemented policies to promote exports, however over the years the global conditions have changed and the Government policy has failed to adjust to these changed conditions which has resulted in their increasing external debt and current account deficit.



In the recent decade the major reason why Mexico has reported slower growth in exports is because it is facing competition with China in its biggest exporting market (USA). Moreover rising trade protectionism has affected the nation's external sector; since Mexico relies heavily on trade (~39%of GDP) this has induced stress on the economy.

Policies such as investment in capital (human and R&D) would make Mexico compete better and ensure growth for the nation in the prevailing global conditions.

CONCLUSION

From the above analysis of Mexico following arguments can be made

- ✓ The effect of globalisation good or bad on growth and the nation's external sector is something that can be controlled and is contingent upon how the nation adapts to the prevailing global conditions. For Mexico decisive policy actions post 1993 boosted their economy *whereas*, inadequate policy adjustment is responsible for its rise in external debt and current account deficit recently.
- ✓ In the case of Mexico, globalisation has increased the number of jobs specially those in the secondary sector, the rising inequality is something which should be attributed to i*nternal* policies rather than *external*. Polices as mentioned earlier if implemented by the government would lead to a more symmetric growth.
- ✓ *Globalization* to fight *Globalization*: The two crises that retard the growth of the country occurred due to external forces (GFC & Capital flight) but the country was able to come out of them by boosting its export sector, however the post crisis growth differs reflecting the nature of policies implemented. In doing so it turned the negative aspect (unexpected global events) of globalization into something positive for the nation (↑ external sector).

Therefore the argument that whether globalization hinders or supports growth of a developing nation is something which is contingent on the policy implemented by them and how effectively it works with the prevailing global conditions.

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