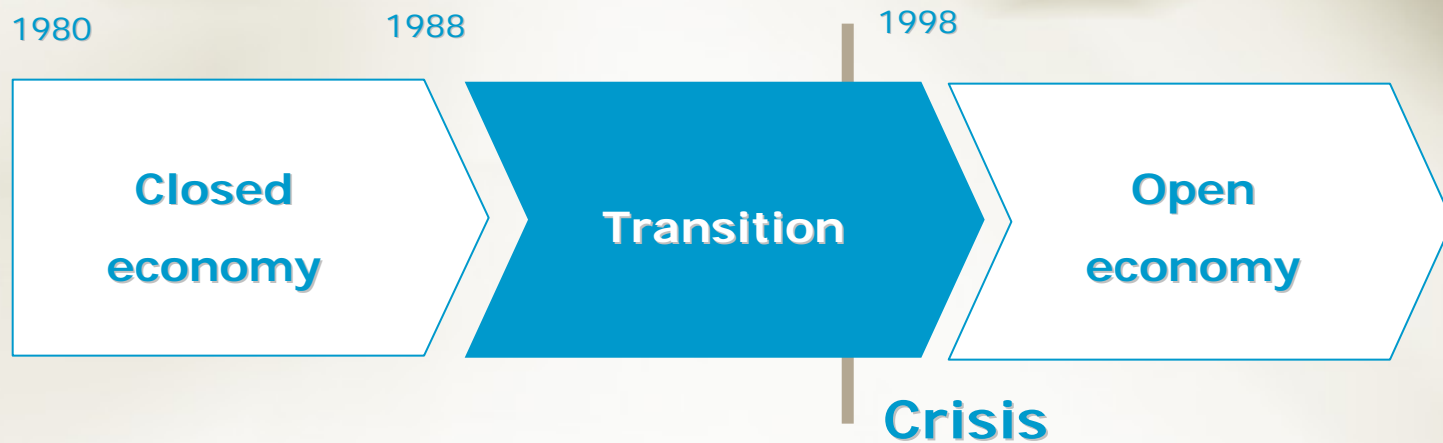

COMPETITIVENESS:
the real challenge in the global economy



Mexico's dilemma



Evolution of GDP per capita

Decreasing

-2%

Moderate
increase

1.4%

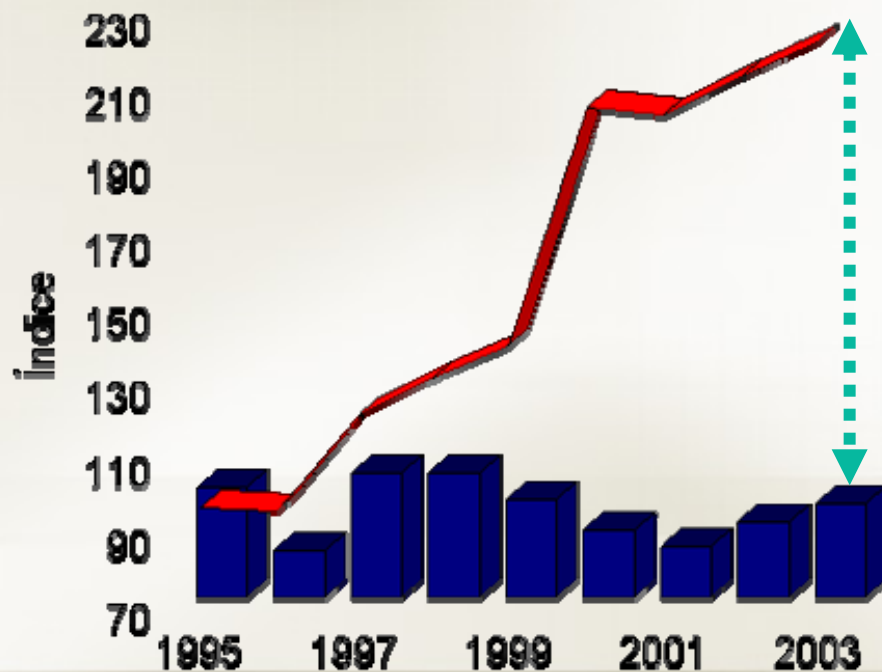
Decreasing

-2.2%

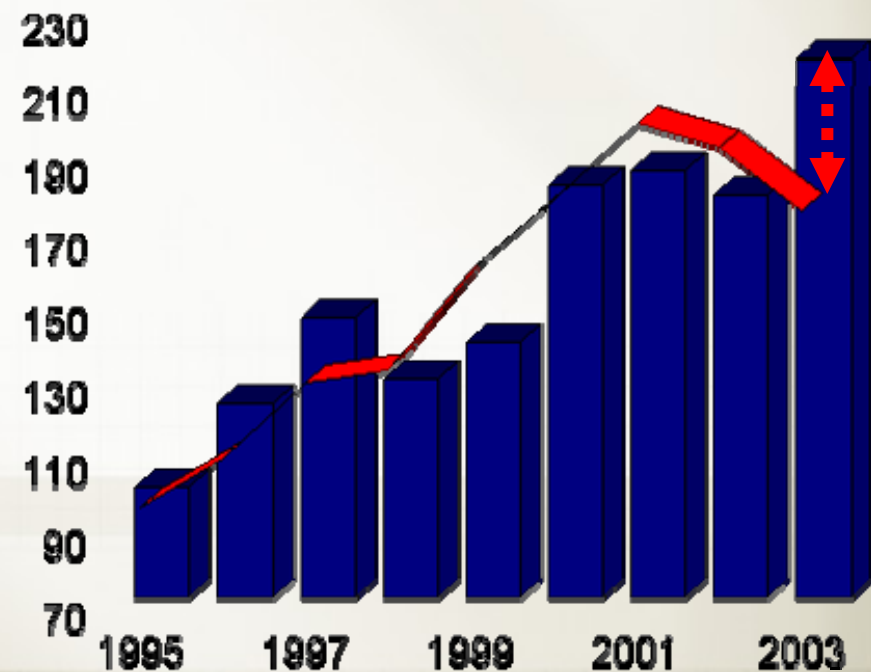
Competitiveness is related to coherence in public and private efforts

Energy - Illustrative

China



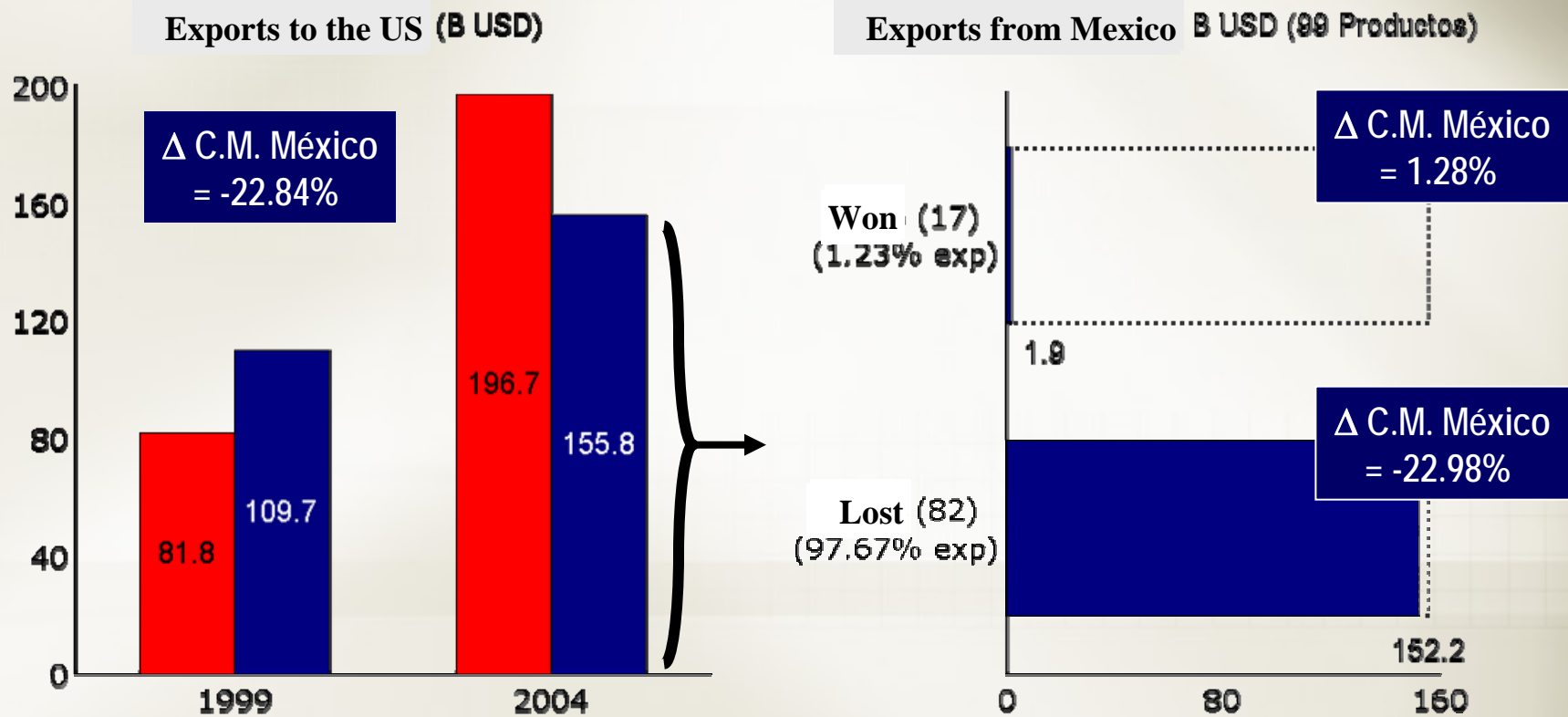
Mexico



■ Unit cost (US\$/kw) ■ Productivity (kwh/US\$)

The lose of competitiveness, implies loss in market share, among other aspects

US imports from Mexico and China (99 products)



Source: Cámara de Comercio de EUA

China Mexico



The private must support government in applying country strategy towards competitiveness

> It is necessary to

- Give governments and main actors proven, objective tools and critical paths to reach faster and more efficiently intermediate goals and monitor progress towards competitiveness, transparency and human development

What is IMCO?

- > Think tank
- > Its mission
 - **Develop public policies that improve the country's competitiveness**
- > Its board
 - **Some of the most influential business men, opinion makers and academics of the country**
- > Its tools and approach
 - **Apolitical**
 - **Independent**
 - **Professional staff and network of intellectuals with strong analytical skills and mixed prior professional experience (government and private)**

Background

> IMCO's first year challenges (2004)

- To define for itself the meaning of *competitiveness*
- How it *affects* countries' development
- What *drives* it
- *Who* are Mexico's competitors
- Mexico's competitive status (relatively)

Developed model that links competitiveness <-> set 140+ variables

- **Econometrically robust**
- **Coherent with data of 45 countries and two years**
- **Easy for opinion makers and decision takers to understand**

Obtained a rank of countries (repeated every year). - Mexico is 31st / 45

Deeper quantitative and qualitative analysis of Mexico's problems and solutions (book). (rep. every other year)

Framework found

> Competitiveness

Ability to attract and retain investments that create employment and well-being for the majority

- **No other way to develop society in a global and open economy**
- **Retain" => maintain conditions => develop sustainably**
- **Investments -> Better jobs -> More wealth -> Better education
-> Healthier people -> More development -> More investment**

Framework found

> 18 factors affect competitiveness (no one is 30% + important)

Rule of law which must be reliable and objective

Physical security

Sustainable use of environmental assets

Inclusive society

Prepared society (education and training)

Healthy society



Framework found (Cont.)

> 18 factors affect competitiveness (cont.)

Stable economic indicators and a dynamic economy

Stable and functional political system

Profitable labor force (salary x efficiency)

Profitable energy (cost x efficiency)

Profitable capital (cost x efficiency)

Profitable land (cost x efficiency)

Abundant and cheap telecommunications

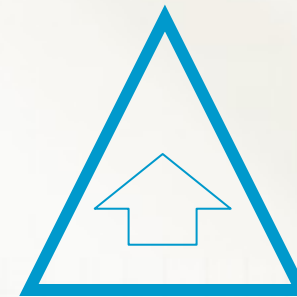
Abundant and cheap logistics

Abundant and cheap financial products

Effective and efficient governments

Use of International relations

Productive fingerprint with potential



How good or bad do we have to be?

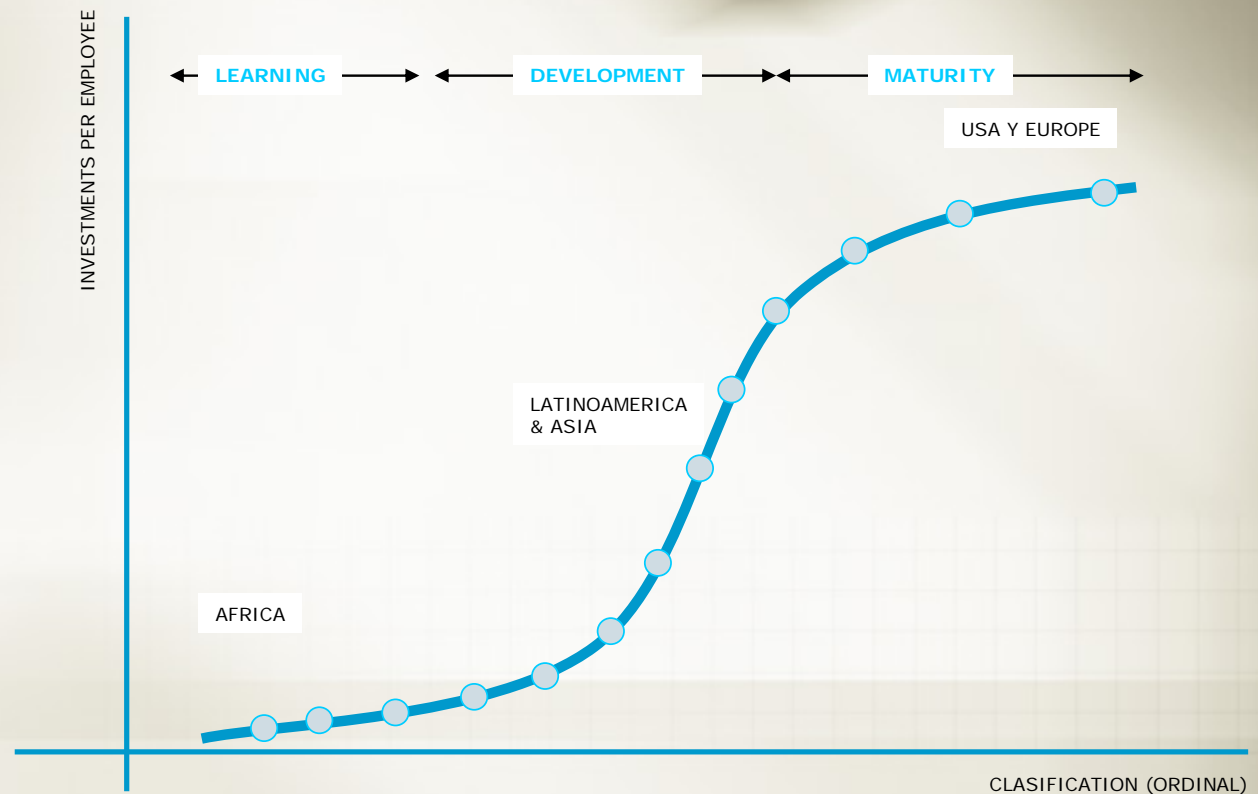


Findings

All countries compete in the same arena

There is a common path towards competitiveness

There are no first and second level countries



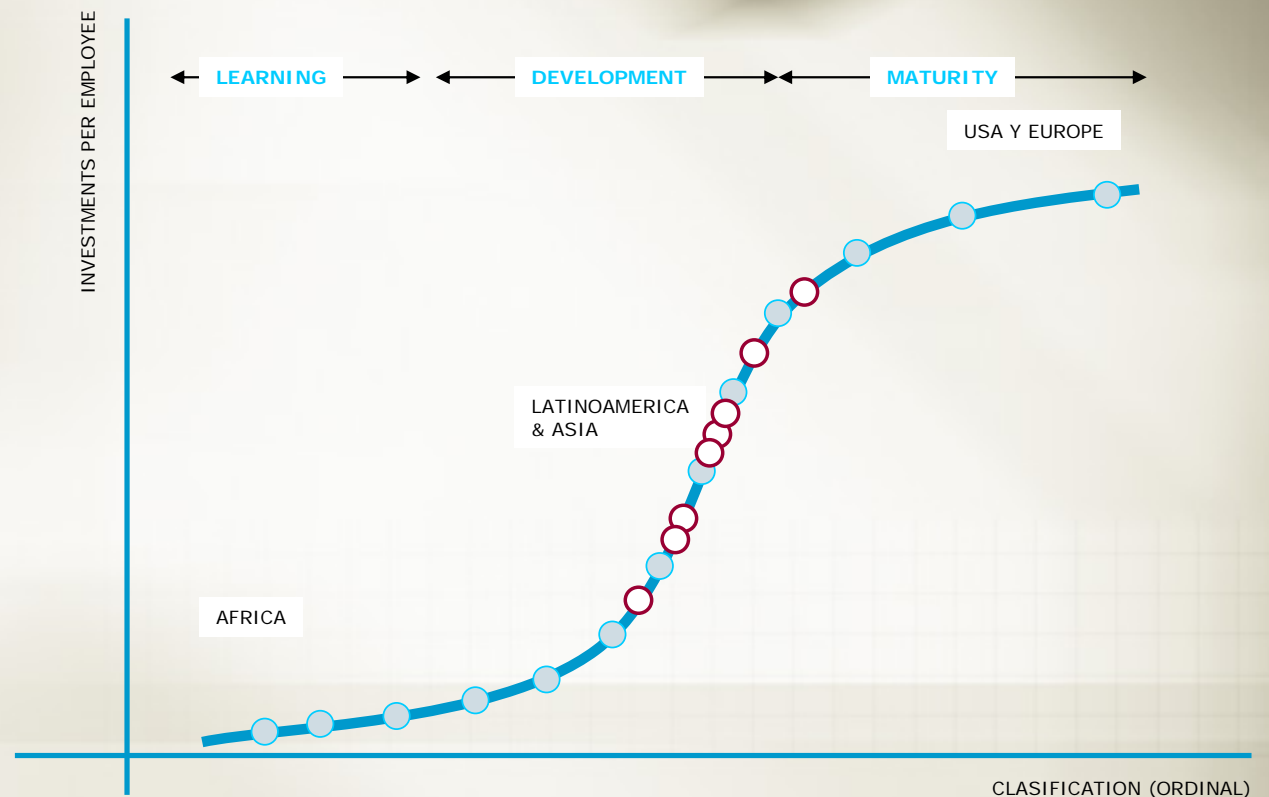
Mexico: a country of very different circumstances

- > Mexico is a very big country
 - 32 states: very different in culture, skills, development, geographic challenges and opportunities, climate, etc
- > National statistics are average numbers not representing any state
 - Necessary to apply the international model to each state
- > With this ... we understand
 - How each state contributes to Mexico's competitiveness
 - Assets and disadvantages of each state



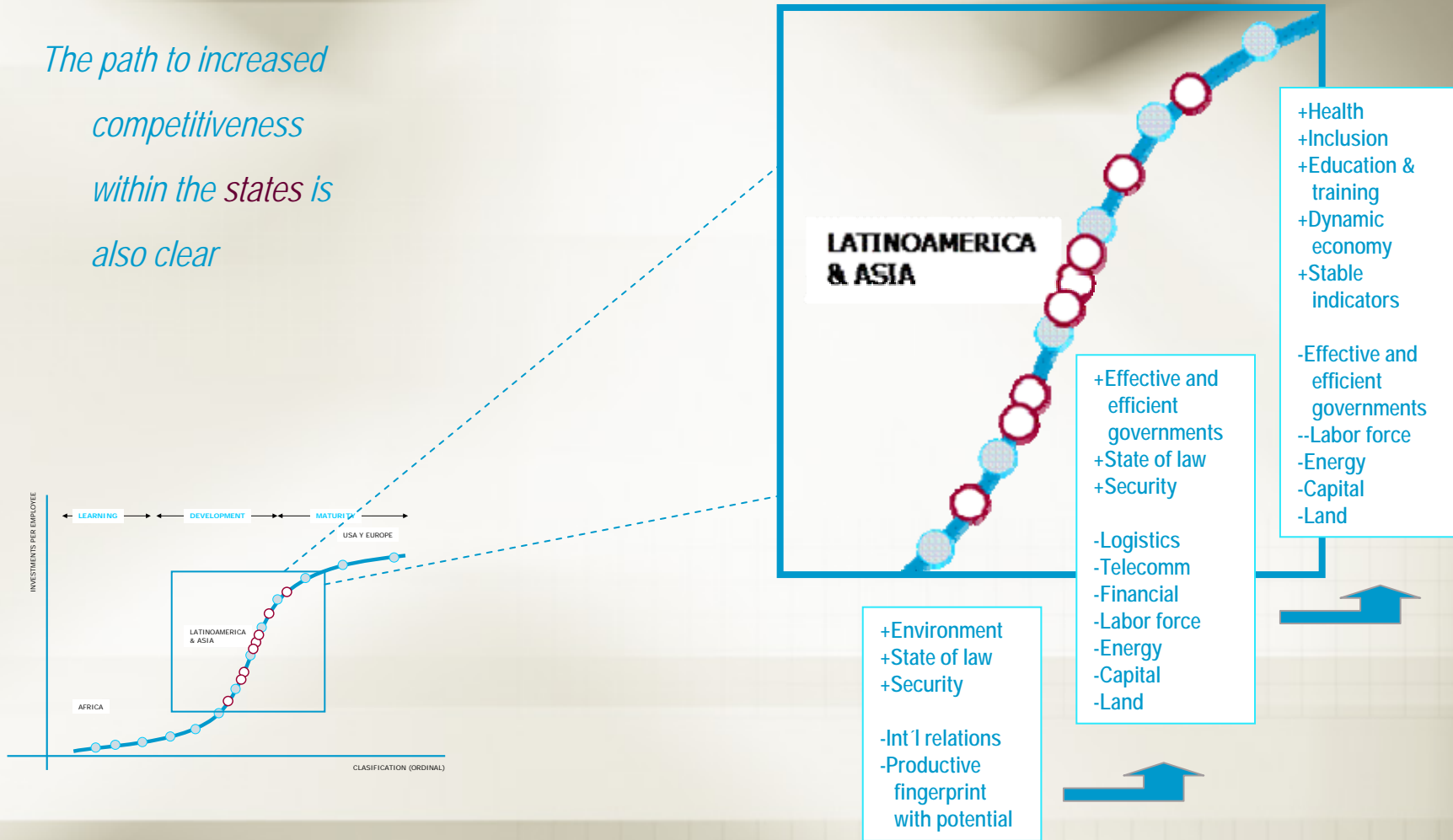
Findings

*Mexican states comply
with the same law
(R^2_{adj} went from
0.84 to 0.92; t-
student > 1.65)*



Findings (Cont.)

The path to increased competitiveness within the states is also clear

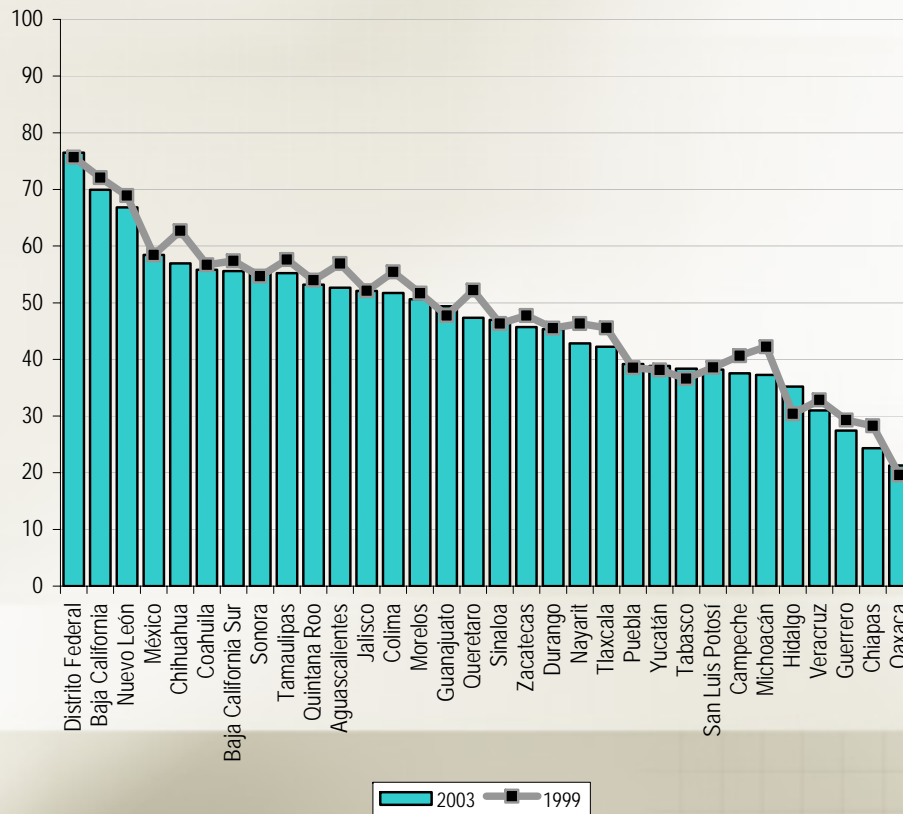


Results

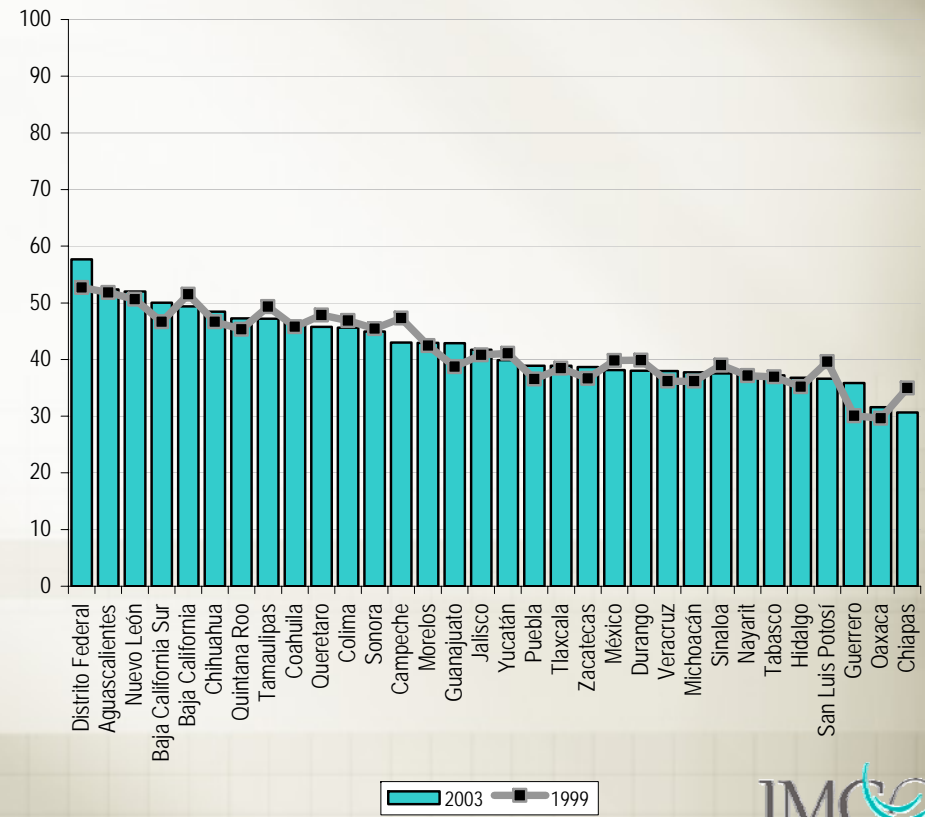
> 11 rankings have been obtained

One for each factor (total 10) and one for general competitiveness

Inclusive, healthy and prepared society

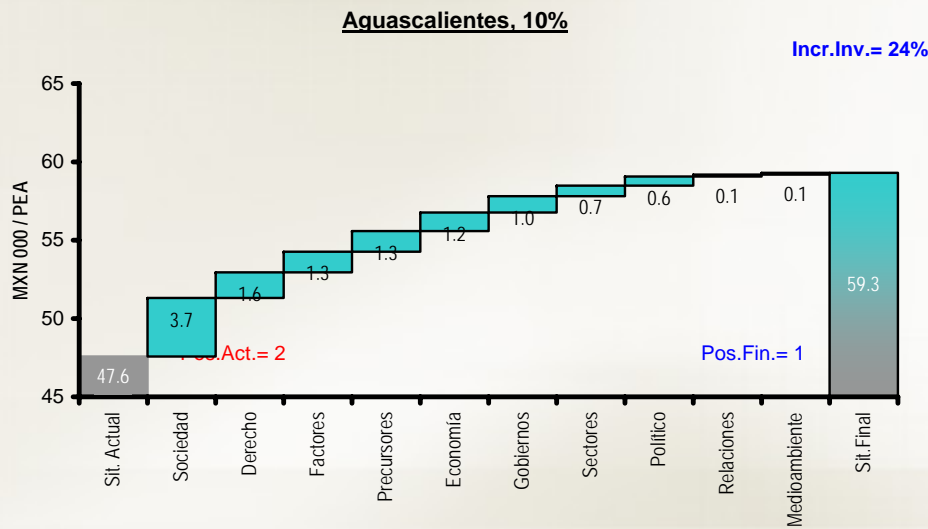


General

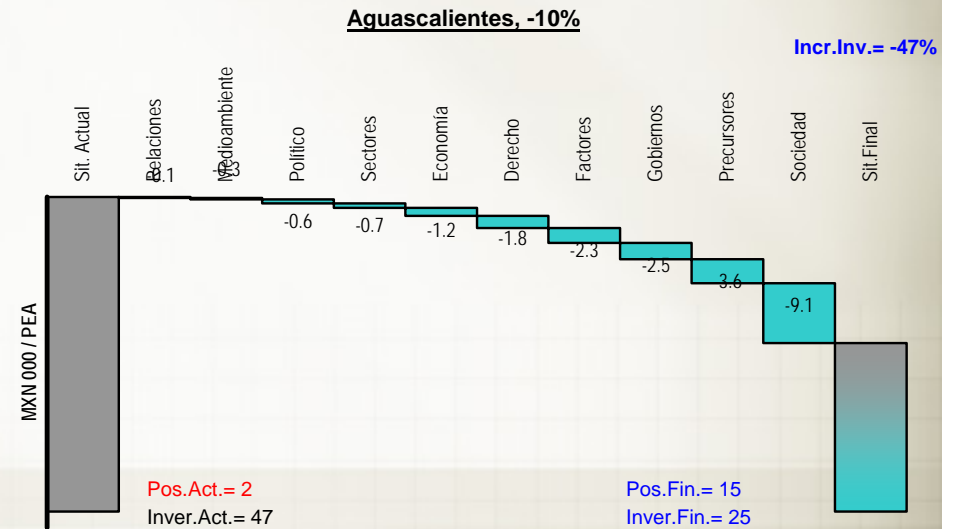


Results (Cont.)

- Improving/worsening the same in every variable does not result in same improvements/decreases in competitiveness
Improving and decreasing effect is not symmetrical (64 agendas had been made)



First 4 factors contribute with 68% of change
 This change represents additional 4556 MM MXN for the state



First 4 factors represent 78% of change
 This change represents -8592 MM MXN less for the state

Results (Cont. II)

- > Because of the normalization, every one of the 130 variables is a race (there is a 100 and a 0)
 - Competitiveness necessarily implies meritocracy

Same position of the first ...

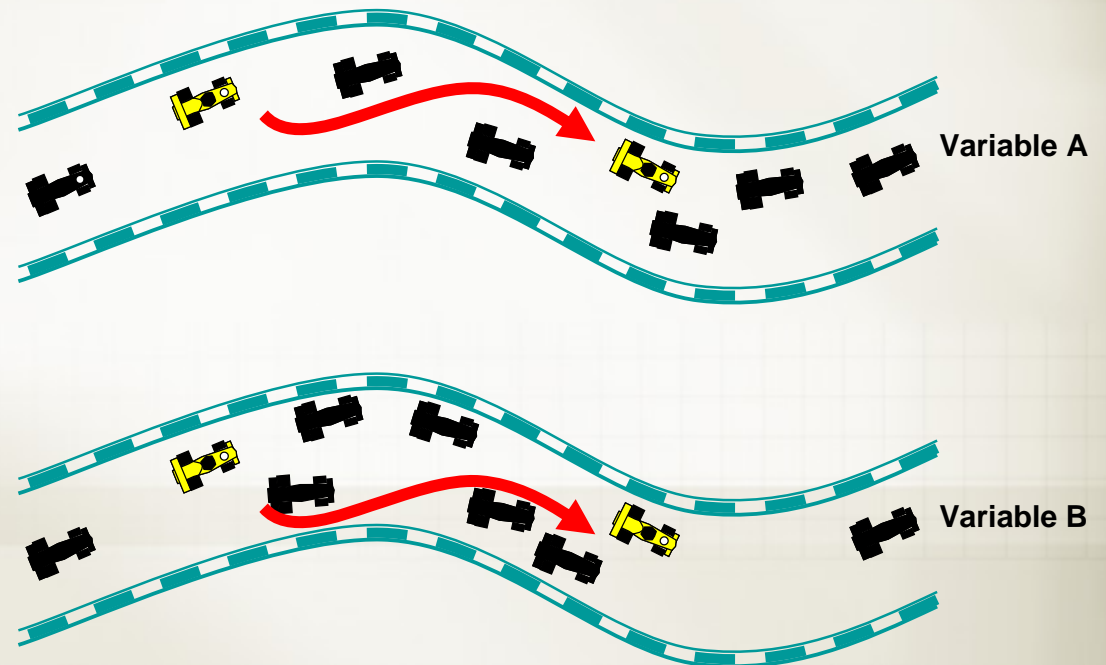
Same position of the last ...

Same distance between yellow and first

Same speeding effort

Different race configuration

Different result



Things are already changing in Mexico

- > The results have been shared already in many forums
 - The President of the Republic and the entire cabinet
 - 11 Governors and their respective cabinets
 - 15 Secretaries of Economic Development
 - 20 Other secretaries of different states
 - Governors' convention (CONAGO)
 - 5,000+ businessmen
- > Impacts will not be seen immediately but there are already signs of change
 - INEGI will start reporting IMCO's set of variables yearly
 - Discussion between States and INEGI about methodology of data determination (transparency)
 - State of Puebla has adopted all variables for internal control
 - State of Mexico wants IMCO to help design the 6-yr agenda in order to advance up to be among the first ten positions
 - Technical efforts at state level want to have IMCO as a partner