The Development Model in Mexico Three Decades after Joining the OECD

El modelo de desarrollo en México a tres décadas de su ingreso a la OCDE

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Abstract
In this article, the author analyzes the context of Mexico's entry into the OECD and how it has influenced the reshaping of economic policy in Mexico. In his analysis, he studies the context in which Mexico joined the OECD and its historical significance, reviews the economic policies implemented and reflects on the balance of the pro-market growth strategy defended by the OECD.

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Resumen
En este artículo, el autor analiza el entorno del ingreso de México a la OCDE y la manera en que ha influido en la reconfiguración en la política económica en México. En su análisis estudia el contexto bajo el cual México se incorpora a la OCDE y su significado histórico, revisa las políticas económicas implementadas y reflexiona sobre el saldo de la estrategia de crecimiento promercado que defiende la OCDE.

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Keywords
OECD, development model, economic policy, pro-market, growth, OECD recommendations

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Palabras clave
OCDE, modelo de desarrollo, política económica, promercado, crecimiento, recomendaciones de la OCDE

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Introduction

The deep economic recession suffered by Mexico and other Latin American countries in the 1980s, which was the result of the external debt crisis between 1982 and 1983, led to such a restrictive economic policy in those years that between 1982 and 1988, average annual economic growth was zero. It is for this reason that the 1980s are remembered as a lost decade for development.

Following this period, the 1990s were undoubtedly a decade of structural change in economic and political matters. The prominent economist Paul Krugman emphasizes two key events that occurred during the government of then-President Carlos Salinas (1988-1994) that made such changes possible: the solution to the foreign debt crisis through the Brady Plan—which allowed for reductions in debt amounts, a restructuring of terms and, therefore, a lower financial burden for the State—and the announcement, in 1990, of the intention to negotiate the North American Free Trade Agreement (NAFTA), which entered into force on January 1, 1994.[1]

[1] Krugman also points out that these two measures were more psychological in character, in terms of creating a new climate of optimism after the deep crisis suffered in the 1980s. Indeed, the measures had little positive impact in themselves, since the former only represented minor relief to the debt burden; while regarding the latter, there was already a

Against this backdrop, a series of structural reforms took place by means of which the Mexican State sought to generate greater economic growth based on the promotion of exports and a model that deregulated all economic activity. The foundations were laid for a new development strategy that would be market-driven, with the entry into force of NAFTA, now renegotiated as the United States-Mexico-Canada-Agreement (USMCA); the autonomy of the Bank of Mexico beginning in 1994, established by a constitutional reform the previous year; the commitment to maintain fiscal discipline, expressed in the objective of achieving primary surpluses in public finances, and a reduced participation of the State in the economy, with the continuation of the privatization program of State companies.

However, there is one event that, although it does not go wholly unnoticed, is ascribed a minor role in all this apparatus: Mexico joining the Organisation for Economic Co-operation and Development (OECD) as its 25th member, an organization originally born in Europe and which is or was frequently known as the "club of rich countries."

Studies that analyze our country's incorporation into the OECD emphasize, first of all, the significance of a non-developed country joining the organization (although it became a model for other developing countries and emerging economies on how to move from a State-led development model to a market-led one); and, secondly, the influence that this organization has had on the public policies applied in Mexico, governance, and how they are evaluated.

This article analyzes both the context of Mexico's entry into the OECD and the way in which it has influenced the reshaping of economic policy in Mexico. For this purpose, it is divided into three sections. The first part studies the context in which Mexico joined the OECD and its historical significance. The second part reviews the economic policies implemented, and the final part examines the upshot of the pro-market growth strategy advocated by the OECD.

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de facto commercial integration with the United States that began in that decade. Paul Krugman, *The Return of Depression Economics and the Crisis of 2008*, New York, W.W. Norton, 2009, pp. 36-38.

The OECD and Mexico's membership

In the OECD Convention,[2] signed on December 14, 1960, Article 1 states that the objectives of the Organisation are: to achieve maximum sustainable economic growth and employment, with financial stability, among member countries; to contribute to healthy economic expansion among member and non-member countries; as well as to contribute to the expansion of world trade on a non-discriminatory multilateral basis.

Article 2 sets out a series of measures that would make these objectives attainable, such as avoiding developments that endanger the economies of members and non-members; reducing or eliminating obstacles to the exchange of goods, as well as liberalizing capital movements; encouraging capital flows to member and non-member countries, taking into account the importance to their economies of receiving technical assistance and of securing expanding export markets.

In Article 3, the members of the Organisation undertake to keep each other informed; to consult each other on a continuing basis, to carry out studies and participate in agreed projects; and to cooperate closely and where appropriate take coordinated action.

These three articles of the Convention, although they do not go into depth about a development agenda, do outline a strategy for action by member countries, and from these towards non-member countries, to achieve, in the terms of the OECD Convention, greater economic growth and development, with efficient use of resources, encouragement of innovation and development, with financial stability and deregulation, both in terms of trade and in foreign investment, to ensure a greater number of markets. This is a clear pro-market development agenda.

Of course, for such purposes, it was not necessary to incorporate a larger number of countries, and, in fact, the Organisation remained small, with practically all member countries being high-income. Before Mexico joined,

[2] OECD, "Convention on the Organisation for Economic Co-operation and Development," at *https://www.oecd.org/en/about/legal/text-of-the-convention-on-the-organisation-for-economic-co-operation-and-development.html* (date of access: November 6, 2024).

the penultimate country to be accepted was New Zealand in 1973; it took almost 20 years for a new country to join.

Mexico joined the OECD as a full member in 1994; the process of analysis, or at least the initial review, of the Mexican economy began in 1992.[3] The reason for Mexico's entry into this organization may be interpreted in several ways. For Leandro Arellano,[4] the set of reforms implemented in the early 1990s, but above all the signing of NAFTA, was the reason the country was invited to join the OECD; the patronage of the United States was key to this decision.[5]

On the other hand, the international situation was also relevant. It has been argued that, with the geopolitical changes brought about by the fall of the Berlin Wall, the end of the Cold War and the resurgence of multilateralism,[6] there was a desire for reform within the Organisation, which questioned the incorporation of new member countries.[7]

Since Mexico joined the OECD, 13 more countries have been accepted, all of them diverse among themselves, including several Latin American countries such as Chile, Colombia and Costa Rica (which, needless to say, are not among the largest economies in the region), together with Hungary, Poland, and the Republic of Korea, among others. Currently, countries including Brazil, Argentina and Croatia are candidates for membership; while China, India and South Africa, in addition to Brazil, have been announced as strategic partners, which means a dialogue has been established with the BRICS countries, with the exception of Russia.[8]

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[3] OECD, *OECD Economic Surveys Mexico 1991-1992*, Paris, OECD Publishing, 1992.

[4] Leandro Arellano, "El ingreso a la OCDE," en *Revista Mexicana de Política Exterior*, no. 44, Fall 1994, pp. 191-198.

[5] Andrea Zomosa Signoret, *La participación de México en la OCDE, 1994-2002*, Mexico, El Colegio de Mexico (Jornadas, 147), 2005, p. 13.

[6] Rebeck Villanueva Ulfgard and Lorena López, "In Search of Making a Difference: Mexico in the OECD International Development Co-operation Architecture," in *Development Policy Review*, vol. 35, sup. 2, October 2017, pp. O287-O302.

[7] A. Zomosa Signoret, *op. cit.*, p. 18.

[8] See OECD, "Members and Partners," at *https://www.oecd.org/en/about/members-partners.html* (date of access: November 6, 2024).

This new phase of incorporations has been interpreted as the "express and strategic interest of the OECD to expand its so-called good practices, which is in the interests of global economic governance."[9] That is to say, incorporating non-industrialized countries can be considered more as a strategy to add towards a greater globalization of the dominant economic model, but from a perspective in which the interests of the developed countries impose their economic policy agenda on the rest of the countries that wish to achieve the industrial standards and standard of living of the developed countries.

However, the OECD itself does not have the authority to sanction non-compliance with the "recommendations" it makes as part of the activities mandated in Article 3 of its Convention, which we described above. Nevertheless,

> another cohesive element in the functioning and adoption of the organization's recommendations is the pressure on each of the members to meet the agreed goals, through constant comparison among all members. This is something that is emphasized in each of the publications of the studies and reports on the progress of the topics that are of interest to the organization. Evaluations and reviews of the progress made with regard to adopted policies are carried out by peer States, which are part of the organization.[10]

This type of pressure may be described as *harder soft governance*.[11] While Markku Lehtonen analyzes a specific case regarding the International Energy Agency, he concludes that, precisely because it lacks punitive mechanisms, the OECD uses the pressure of peer review to establish a work agenda that must be fulfilled, which implies attracting the attention of interested civil

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9 Carlos Hernán González Parias, José Alban Londoño Arias, Miguel Paradela López and Carlos Alberto Builes Tobón, "Estrategias de la OCDE para sumar influencia en la gobernanza económica internacional," in *Revista Científica General José María Córdoba*, vol. 20, no. 40, October-December 2022, p. 835.

10 *Ibid*., p. 837.

11 Markku Lehtonen, "Harder Governance Built on Soft Foundations: Experience from OECD Peer Reviews," in *Journal of Environmental Policy & Planning*, vol. 22, no. 6, 2020, pp. 814-829.

society organizations, the media, and, of course, other nations, in order to influence the public policies of those countries examined.[12]

OECD recommendations to Mexico

Following the institutional changes already described, Mexico faced a deep financial crisis that began in December 1994, at the start of the presidential term of Ernesto Zedillo, which brought about a fall in GDP of 6.2%. That is to say, Mexico launched its new development strategy in tandem with a crisis, which further deepened deregulation in various aspects of the economy.

The introduction to the *OECD Economic Surveys: Mexico 1995*[13] (the first study prepared by the OECD for Mexico as a fully-fledged member country), after summarizing the situation in the country, highlighted the entry into force of NAFTA, as well as the economic crisis arising from the devaluation of December 1994, as well as the armed uprising in Chiapas in 1994. It concluded that in order to reinforce sustained growth in the medium term, structural reforms needed to continue in various relevant areas such as labor markets, the agricultural sector, and competition policies, and that the privatization process should continue.

This economic study for Mexico acknowledged the decade during which our country had undergone a process of reforms with the aim of making the economy more open, flexible and responsive to market forces, reducing State intervention in economic activity.[14]

In fact, this study highlighted that, as part of the stabilization program in the context of the 1995 crisis, the Government announced a new round of privatizations that included petrochemicals and public services such as railroads, satellite communications and even electricity;[15] although it acknowledges that some public services will be difficult to privatize

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[12] *Ibid.*, p. 815.

[13] OECD, *OECD Economic Surveys: Mexico 1995*, Paris, OECD Publishing, 1995.

[14] *Ibid.*, p. 79.

[15] *Ibid.*, p. 80.

given the limitations set out in the Mexican Constitution. In short, it was a question of carrying on down the same path to strengthen the model and generate growth and prosperity.

In this context, the importance of continuing to pursue financial deregulation stands out. This study highlights the banks, which had already been privatized, and the process of profound reorganization leading to deregulation and financial liberalization, which was necessary given the inefficiency arising from the previous financial regulation model. The study notes that financial deregulation has been associated with rapid growth in the Mexican financial sector and highlights the growth in financial market capitalization and banking sector assets as a percentage of GDP.[16]

Of course, deregulation should not only occur in the financial and fiscal sectors, but also in the functioning of the labor market, where the supposed rigidity of the law regulating working conditions in the country should be made more flexible;[17] including with agricultural markets.

In the conclusions of the study, the OECD recognizes the pro-market agenda of economic policies and structural reforms in a relatively short period of time; although it considers that, after the deregulation process, the greatest challenge facing the economy is to reduce the prevailing levels of poverty and inequality, not only because this is a good thing, but because they put political stability at risk, as occurred with the Zapatista uprising in 1994.

As mentioned, the economic policies suggested since that time were carried out. Three basic pillars of the market-led model were identified that coincide with the economic policy recommendations expressed: financial deregulation and an autonomous central bank, further trade liberalization and balanced public finances. In addition to the series of reforms that

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16 It is important to point out that, 30 years later, financial deepening has not been achieved and the financial sector does not play the role in economic development that was sought at the time.

17 This supposed rigidity is mentioned because, in a fact that has not changed much since then, Mexico has a de facto very flexible labor market due to the extensive participation of informal employment that is outside labor regulations. See César Armando Salazar and Aleida Azamar Alonso, "Flexibilidad y precarización del mercado laboral en México," in *Política y Cultura*, no. 42, Fall 2014, pp. 185-207.

have allowed for a continuing process of privatization or greater private participation in sectors previously considered strategic; flexibility of the labor market (both de facto and in the way markets operate in reality),[18] etc.

The outcome in economic growth

In the long term it is easy to observe two economic models implemented in Mexico. The first, established after the Second World War and in force until the external debt crisis took hold in the early 1980s, is characterized by a categorical participation of the State in directing the economy, observed in an active use of fiscal and financial policy tools associated with its monetary sovereignty, a very significant number of state-owned companies in various activities of the national productive structure and the existence of strict regulations in the financial and external sectors. The second model, in force since 1983 and institutionalized in the 1990s, has already been explained in the previous section.

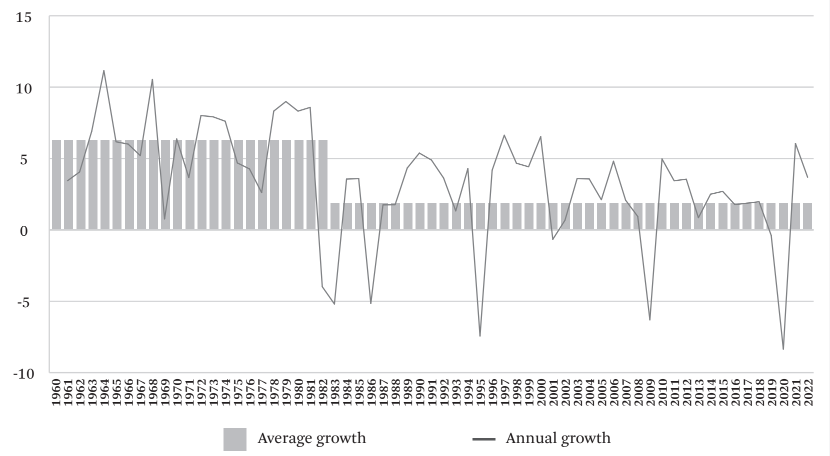
In their outcomes for economic growth, the differences between the two models are evident. Between 1960 and 1982, the Mexican economy grew at an average annual rate of 6.3%, while in the period 1982-2022, growth was only 1.9% average annual. As can be seen in Graph 1, in addition to the reduction in average annual economic growth, the market-driven model significantly increases its volatility, experiencing very marked periods of economic contraction.

It is curious to note that in the OECD *Economic Surveys: Mexico 2024*,[19] in a sense, the concerns remain the same—reducing poverty and inequality—as do the recommended policies: maintaining macroeconomic balance, especially in public finances. In the context of Mexico's entry into the free market, not only did it see lower rates of economic growth as a result, as evidenced in Graph 1, but there was also a decline in the share

[18] C.A. Salazar, "El mercado laboral mexicano y sus desafíos para el 20-30," in C.A. Salazar (ed.), *Desafíos para la economía mexicana en el 20-30*, Mexico, Instituto de Investigaciones Económicas-UNAM, 2021, pp. 79-108.

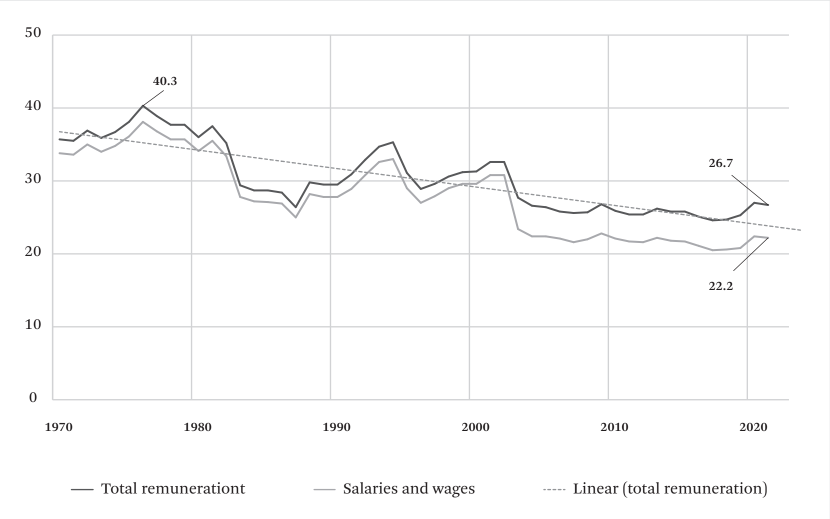
[19] OECD, OECD *Economic Surveys: Mexico 2024*, Paris, OECD Publishing, 2024.

Graph 1. Gross domestic product, annual and average growth rate 1960-1982 and 1982-2022



Source: Prepared by the authors based on the National Institute of Statistics and Geography (INEGI), National Accounts System of Mexico, various years.

Graph 2. Total wages and compensation as a percentage of GDP, 1970-2021



Source: Prepared by the authors based on INEGI, National Accounting System of Mexico, various years.

of workers' wages in GDP, due to the fact that working conditions became more precarious in a deregulated market where workers' rights are not protected and because there is no industrial policy that promotes local production chains, better industries, and more jobs. These would be fundamental policies to move towards a better distribution of income and to combat poverty more forcefully.

Graph 2 clearly shows the decline in the share of wages and total remuneration in GDP since the 1980s, making it clear that the market-led growth model deteriorates income distribution by weakening the components of domestic demand, which reinforces lower economic growth in the long term.

Conclusions

Mexico's entry into the OECD is a corollary of the change in economic strategy pursued by the country. There is no doubt that this acknowledged the structural reforms and pro-market economic policies already applied, but in ideological terms it represented encouragement from the international sphere that the change of direction in economic policy was the right thing to do following the deep economic crisis suffered in the 1980s.

As Arellano indicated,[20] Mexico did not join the OECD because it is a developed country. Rather, its becoming a member was the turning point in a new stage in the governance and form of influence of the Organisation towards the other countries in which it might have an interest. Thirty years after the implementation of the new model, the economic problems that it was intended to combat still prevail, despite Mexico's adherence to the new economic policy.

20 L. Arellano, *op. cit.*