



RESEARCH AGENDA 2005

CIDAC is a not for profit, Mexico City based, think tank. During its more than two decades of existence CIDAC has supported several projects directed at promoting the development of the market economy (as well as democracy and the rule of law) in Mexico. CIDAC was a strong supporter of free trade in North America and of NAFTA in particular. It is currently involved in efforts to further North American institutional cooperation.

CIDAC communicates its results through its web site (www.cidac.org), by publishing books, working papers, and through magazine and newspaper articles authored by its researchers. It also organizes presentations to which it invites leading personalities from the private and public sector as well as the academia.

CIDAC coordinates two research networks peopled by leading researchers from Mexican universities.

During 2005 CIDAC is undertaking 6 projects dealing with economic issues.

1. Competitiveness

Although a constant in the Mexican public debate is the need for deep changes in the economy, there is a great confusion regarding the specific changes that need to be implemented. This confusion emerges from ignorance regarding the conditions that allow societies to become more affluent and competitive. Lack of faith in market institutions among different groups of Mexican businessmen is particularly worrisome, since they should be on the forefront of the battle to promote competitiveness.

CIDAC developed a book aimed at small and medium sized businessmen, which tries to explain in simple terms the notion of competitiveness and the various structural problems faced by Mexican companies that aim to become more competitive. The purpose of the book is to bring closer the visions of different groups of businessmen on the subject as well as to foster among those groups a sense of urgency for a minimum set of the structural changes to favor the competitiveness of the Mexican economy.

The project was supported by the Mexican Competitiveness Institute (IMCO), and the book will be published by the Fondo de Cultura Económica in late 2006.

2. Electric Sector Reform

A major roadblock for the consolidation of a market economy in Mexico is the current industrial structure of its energy sector. Mexican energy (oil, gas, electricity, etc.) is currently dominated by large and inefficient public sector companies. Private participation –where it exists- is very limited since the Mexican Constitution imposes strong limitations. Electricity is a special case since it is the part of the energy sector where private participation has made deeper inroads in the last decade. A greater opening of Mexican electricity to private participation has also been one of the most debated economic issues in Mexico during the last five years, a reform that despite strong efforts by the Fox administration has failed to receive the support of Congress and of the Mexican population at large.

CIDAC's project attempts to change the focus of the Mexican debate on electricity reform from one in which the opening of the sector is championed on the basis of the need to obtain resources for further investment in the sector, to one in which efficiency and lower prices to consumers are the major objectives of reform. Accordingly CIDAC's project focuses on aspects neglected by most current analysis of the sector: a) labor contracts and b) corporate governance of the public sector companies (*CFE* and *Luz y Fuerza*) that dominate the electricity industry in México; and c) the evolution of the small market for electricity and its regulation since private participation was allowed in 1992. The project ends with a set of policy prescriptions for improving the efficiency of public companies and the regulation of the market.

3. Competition and Regulation Network

The lack of competition and infrastructure are two major problems faced by the Mexican economy. Many major markets are still heavily concentrated and poorly regulated. The problems are particularly acute in infrastructure sectors (telecommunications, electricity, water, roads and etcetera) where Mexico faces strong investment needs aggravated by institutional regulatory deficiencies. The existence of several research projects regarding competition and regulation in different Mexican institutions (universities and think tanks) presents opportunities for collaboration and coordination that take advantage of the specific competitive advantages of each. In particular, it seems important to publicize the findings of academic economists among stakeholders through policy oriented presentations. CIDAC conceived the idea of creating

Taking advantage of the existence of several academic studies, CIDAC created the first Mexican research network on competition and regulation of infrastructure, defined its goals and strategies, and obtained resources to finance it. The network coordinated by CIDAC is peopled by leading economic researchers from Mexican academic institutions: CIDE (Centro de Investigación y Docencia Económicas), Universidad Anahuac and IMCO (Instituto Mexicano

para la Competitividad). During the second half of 2005 and the first semester of 2006 the researchers affiliated with the network will produce several working papers on topics ranging from the evaluation of the Federal Competition Commission's merger policy (and resolutions), to the regulation of transport rates in the Mexican electricity networks, the public policy regarding the financing of federal road infrastructure, the use of risk models to regulate water supply, the regulation of intra-competition among port service providers, and the deregulation of the radio spectrum, among others. CIDAC will collaborate in the diffusion of the findings of the network researchers through the network microsite, and by organizing seminars and presentations to policy makers, and facilitating the publication of results in magazine and newspaper articles. The network's working papers will be translated to English to facilitate comparisons of the Mexican cases with other studies done by other research centers around the world.

This project is supported by the Hewlett Foundation.

4. Access to Financial Services by the Poor

Lack of access to appropriate savings and credit institutions is one of the reasons the poor cannot improve their situation. The problem is complicated by the fact that the savings habits and practices of the Mexican poor are not well understood.

During 2005 CIDAC published a book with the results of a study on the access of the poor to financial services (savings and credit, formal and informal). Based on a survey analysis the study showed some of the distinguishing characteristics of the savings habits of the Mexican poor, and made policy proposals based on those findings. The book also analyzed the characteristics of the microfinance sector in Mexico, as well as those of Mexican law on the subject.

CIDAC's study received the support of the Ford Foundation.

5. Introduction of a Universal Pension Scheme

The Mexico City government introduced in 2001 the "Program of Food, Medical Attention and Free Medicine Support for Adults over 70", which has achieved a great level of acceptance among the population, not only in Mexico City, but at the national level. Presently over 300,000 people receive a 65 US dollars monthly payment under the program. The relative success of the program and its publicity has made other states evaluate the possibility of introducing it, and the Mexico City Major (presently the leading candidate for the 2006 presidential election) has proposed to apply it at the national level.

CIDAC has undertaken a project to evaluate the economic and fiscal impact of extending to the national level the elderly support program presently applied in

Mexico City. CIDAC's study will analyze the population growth trends, the general situation of social security in Mexico, and the characteristics of the Mexico City elderly support program (coverage, budget, efficiency, regressiveness, fiscal cost, etc.). It will also project the fiscal impact of extending the Mexico City program at the national level. The study will end with recommendations on the reforms to Mexican social security that need to be undertaken before extending the Mexico City program at the national level. It will also suggest several institutional design improvements that could be made to the Mexico City program.

6. Lessons of NAFTA for the Central America / Dominican Republic Free Trade Agreement

There is a broad consensus that free trade plays an important role in achieving economic growth and competitiveness, and ultimately poverty reduction. However, there is also increasing recognition of the costs and limitations of trade liberalization, as well as the need for a domestic policy response that allows productive sectors to take full advantage of greater market access, and to minimize risks from international competition and revenue loss. The premise of the study is that trade integration is an essential tool for promoting growth and competitiveness, but by itself does not constitute a development strategy. The experience of Mexico under NAFTA suggests a mixed record. On one hand, the sectors and regions with the preconditions for rapid adjustment to free trade -- e.g., northern states and firms with access to capital, information and technology -- can reap tremendous benefits: expanded and higher-value production, more jobs, better wages, etc. On the other hand, the sectors and regions lacking those preconditions have largely failed to adjust. After stagnating for over a decade, they now face even more intense global competition with less preferential access. Given this experience, a central purpose of the project is to encourage governments of Central American and the Dominican Republic to anticipate likely effects that arise from CAFTA, and to consider policies and expenditures that respond directly to the Agreement's challenges and opportunities.

The project was commissioned by the Inter-American Development Bank, and is expected to be completed by May 2006.