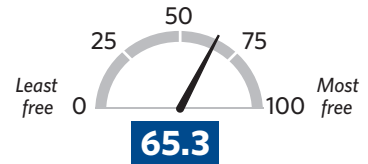




MEXICO

Economic Freedom Score



World Rank: **54** Regional Rank: **3**

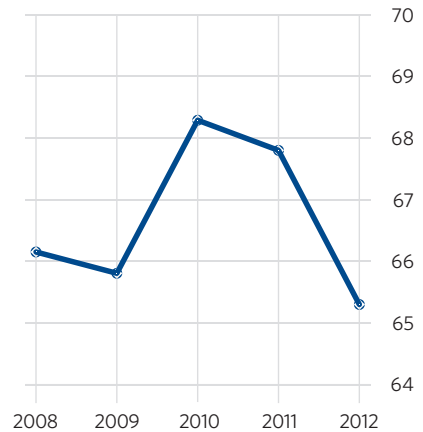
Mexico's economic freedom score is 65.3, making its economy the 54th freest in the 2012 *Index*. Its score is 2.5 points worse than last year, reflecting declines in six of the 10 economic freedoms including trade freedom, business freedom, and investment freedom. Mexico is ranked 3rd out of three countries in the North America region, but its score is well above the world average.

Mexico's record on economic freedom, as charted over the life of the *Index*, is one of considerable ups and downs. Registering one of the 10 largest score declines this year, the economy's ranking indicates that serious challenges remain. The rule of law has been severely undercut by ongoing violence and social instability related to drug trafficking. Other grave institutional weaknesses include rampant corruption and weak protection of private property rights. The reform agenda addressing these deficiencies has been extensive, but progress has been sluggish and marginal.

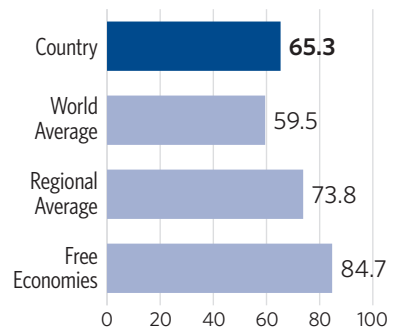
By and large, economic performance is far below potential. Although the regulatory environment has become more streamlined, shortcomings in the business environment, including a rigid labor market and burdensome non-tariff barriers, continue to undermine economic efficiency.

BACKGROUND: Since 1988, limited reforms have begun to alter Mexico's corporatist, statist economic model. President Felipe Calderon, the second president from the National Action Party (PAN) since 2000, has achieved important judicial, fiscal, pension, and electoral reforms, but economic liberalization has not progressed, with no movement in deregulating telecommunications or opening the energy sector fully to foreign investment. The PAN is likely to face a serious political challenge from a resurgent Institutional Revolutionary Party in the 2012 presidential election. Mexico is a party to the North American Free Trade Agreement with Canada and the U.S. and a member of the Organisation for Economic Cooperation and Development. Its economy depends heavily on commercial relations with the United States and remittances from migrant workers in the U.S. The overwhelming security challenge from illegal drug cartels is likely to continue.

Freedom Trend



Country Comparisons



Quick Facts

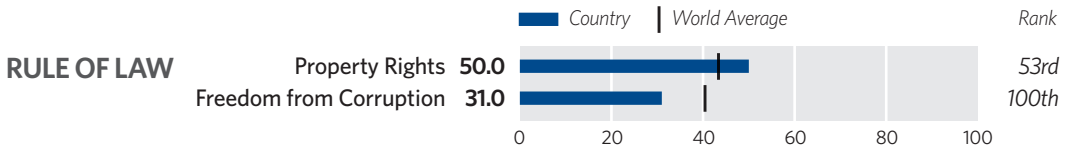
Population: 108.6 million
GDP (PPP): \$1.5 trillion
 5.5% growth in 2010
 5-year compound annual growth 1.8%
 \$14,430 per capita
Unemployment: 5.3%
Inflation (CPI): 4.2%
FDI Inflow: \$18.6 billion
Public Debt: 42.9% of GDP

How Do We Measure Economic Freedom?

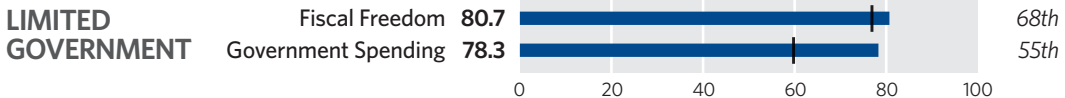
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

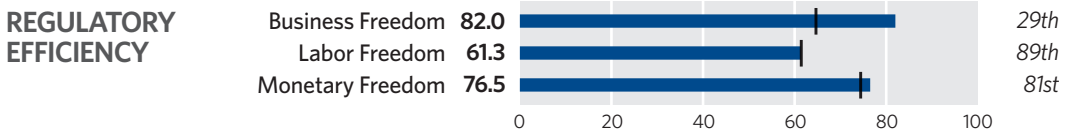
THE TEN ECONOMIC FREEDOMS



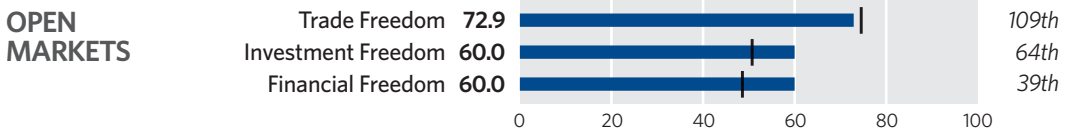
Respect for the rule of law has declined in the face of failed efforts to control drug trafficking and related violence. Contracts are generally upheld, but courts are inefficient and vulnerable to political interference. Despite a legal framework covering intellectual property rights, prosecution of infringement is ineffective. Corruption has been pervasive for years, and most government audit institutions lack operational and budgetary independence.



The top income and corporate tax rates were temporarily raised from 28 percent to 30 percent starting in 2010 and will be lowered to 29 percent in 2013 and 28 percent in 2014. Other taxes include a value-added tax (VAT), and the overall tax burden is about 18 percent of GDP. Government spending has risen to a level equivalent to 26.9 percent of total domestic output, with budget deficits widening. Public debt is 42.9 percent of GDP.



Earlier reforms have enhanced the regulatory framework, but the pace of reform has slowed in comparison to other emerging economies. The cost of completing licensing requirements, particularly getting construction permits, has increased to over three times the level of average annual income. Labor market reforms have stalled. Inflation has moderated, averaging around 4 percent over the most recent three years.



The trade weighted average tariff rate is 6.1 percent, and extensive non-tariff barriers increase the cost of trade. Despite a strong desire to attract more foreign investment, the investment regime lacks efficiency and is hampered by violence and instability. The financial sector has become more competitive and open in recent years. The banking system remains relatively well capitalized, and foreign participation has grown rapidly.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	-5.3	Trade Freedom	-8.3
Freedom from Corruption	-2.0	Government Spending	-4.8	Labor Freedom	+0.4	Investment Freedom	-5.0
				Monetary Freedom	+0.8	Financial Freedom	0