Economic and Financial Reform in Mexico: Challenges and Opportunities to 2025

Ira Sohn
Montclair State University

This paper begins with a review Mexico's vital statistics, and some past and recent economic and political highlights. Mexico is assuming a larger and more prominent role in the global economy because of its abundant energy resources, its favorable demographics, its proximity to the large -- and rich -- North American market, and its openness to trade. Using a well-known framework that assesses the performance of a national economy that participates in the wider global economy, I identify the strengths and weaknesses of the Mexican economy that should be exploited or addressed to the end of enhancing the future performance of the economy.

INTRODUCTION

While the economies of most of Europe and the United States continue to heal in the wake of the Great Recession, Latin America experienced impressive growth for the decade ending in 2013, with only a brief downturn in 2009 (United Nations, 2013). This is most likely the result of "more pragmatic policies, including flexible exchange rates, inflation targeting by more or less independent central banks, more responsible fiscal policies, and tighter regulation of banks, as well as social policies aimed at the poor" (Reid, 2010).

The favorable international economic environment until 2008 -- in particular the double digit GDP growth in China -- along with more responsible economic policies and/or improvements in the legal and tax environments for business in some countries in Latin America, i.e., Brazil, Chile, and Peru, resulted in higher regional economic growth rates and improved living standards. The ten years to 2013 were Latin America's best since the 1960s and 1970s, with economic growth averaging 4% per year and inflation in single digits (United Nations, 2013).

However, slowing growth in China (7.3% in 2014 and 6.9% in 2015, and the resulting decline in international commodity prices), continued weakness in Europe, Japan, and in the US, and negative growth in Brazil, Venezuela, and Argentina reduced regional growth to 1.3% in 2014 and lowered the region's estimated 2015 growth rate to 0.9%, according to the International Monetary Fund (United Nations, 2014; The Economist, 2015i). The ongoing economic crisis in Brazil -- the region's largest economy -- deserves additional comment: GDP, in 2015, is estimated to have declined by more than 4.5% from a year ago, as the country experiences its worst recession since the 1930s with unemployment likely to reach 8.0%, inflation, 10%, and the budget deficit is likely to exceed 9.5% of GDP (Leahy, 2015).

This paper begins with an overview of Mexico's vital statistics that provide some measures of the nation's relative material wellbeing as compared with two of its like-sized "neighbors" in the hemisphere, Brazil and the United States. In addition, I review the major political events of the past that shaped some

of the major institutions of the country, the current -- both domestic and international -- political environment that affects the performance of the Mexican economy, and some of the major economic and political events of the last few years that have influenced the country's economic and financial policies. Part 2 provides a review of some recent research regarding some of the "ingredients" judged to be important for a well-performing national economy that is participating in the wider global economy in the second decade of the 21st century. These "ingredients" are used in the next section to assess the current state of the Mexican economy -- both its strengths and weaknesses. I conclude by summarizing the strengths the country can draw on to the end of improving the performance of its economy and increasing living standards and also highlighting the country's mostly "man-made" impediments to a more prosperous future.

PART 1. VITAL STATISTICS, AN OVERVIEW OF MEXICO'S PAST POLITICAL AND ECONOMIC HISTORY, AND SOME CURRENT COMPARATIVE MEASURES OF WELLBEING

Vital Statistics

The United Mexican States, a federal republic comprised of thirty-two states (that includes the newest state, Mexico City, its capital and largest city), is bordered on the north by the United States, on the south and west by the Pacific Ocean, on the southeast by Guatemala, Belize, and the Caribbean Sea, and on the east by the Gulf of Mexico. The country lies between 14-33 degrees north of the equator, and has a total area of almost 2,000,000 square km, the 14th largest country in land area. In 2014, Mexico's population was approximately 121 million people and its population growth rate was estimated at 1.2% per annum (p.a.) -- a shade above the Latin America average of 1.1% p.a. (Central Intelligence Agency, 2015). While the country historically registers net out-migration (mostly to the United States), in the wake of the Great Recession and the anemic recovery, in 2011 there was net in-migration to Mexico (Wainright, 2012). Today, many migrants from Mexico entering the US originate from Central America, fleeing the violence and lack of economic opportunities in that region.

Life expectancy in 2014 was reported at 75.4 years, about four years less than in the United States, and the infant mortality rate in Mexico was 12.6 per 1000 live births, about double the rate as in the US. In 2014 more than 80% of Mexicans lived in urban areas, slightly below the US rate. The country's ethnic breakdown is 62% mestizo, 28% Amerindian and predominantly Amerindian, and 10% European. Mexico registers greater than 95% literacy for those 15 years and older, and in 2011 the country spent 5.1% of its GDP on education, slightly below the US rate of 5.2%. The World Bank classifies Mexico as an upper middle-income country, and per capita GDP in 2014 was estimated at $17,900 US on a purchasing power parity (ppp) basis (Central Intelligence Agency, 2015).

Concerning the composition of GDP in 2014, agriculture accounted for 3.5% of GDP (but employed 13.4% of the approximately 52.9m people in the labor force); industry for 36.4% of GDP (and 24.1 % of the labor force); and services for approximately 60.1% of GDP. In 2014, urban unemployment was 6.0%, and Gross Fixed Investment as a percentage of 2014 GDP was reported at 20.7% (Central Intelligence Agency, 2015; United Nations, 2014).

A Brief Overview of Mexico's Political and Economic History: 1521-2012

Pre-Columbian Mexico was inhabited by then-advanced civilizations such as the Mayans, Aztecs, and others. In 1521, Spain began its conquest and colonization of this territory, and the future State of Mexico became a division of New Spain. This period of conquest spanned 130 years, from 1521-1650. Arguably, the Spaniards' most potent weapon in subduing the indigenous people was the smallpox epidemic in the early 16th century. Estimates of deaths from smallpox range from 10-50% of the Aztec population of about 30m (http://en.wikipedia.org/wiki/mexico).

By the middle of the 17th century Spain had subdued the other indigenous peoples and the area became part of the much larger Viceroyalty of New Spain which included Cuba, Puerto Rico, Central

America as far south as Costa Rica, Florida, the (future) southwestern US, and the Philippines. The colonial period is generally recognized as 1650-1821.

Possibly influenced by the successful American independence movement to the north in the latter third of the 18th century, a Mexican insurgency against Spanish rule was born in the first decade of the 19th century that continued until representatives of the Spanish Crown signed the "Treaty of Córdoba" in 1821 and the "Declaration of Independence of the Mexican Empire", recognizing the independence of Mexico, which was achieved in 1810.

In the aftermath a period of economic and political instability ensued that plagued the new country with constant strife between liberals, who supported a federal form of government (modeled on the United States), and the conservatives, who favored a hierarchical form of government. By 1836, the country fractured and three new governments declared independence: The Republic of Texas -- which achieved independence and joined the US -- the Republic of the Rio Grande, and the Republic of Yucatán.

A border dispute led to the Mexican-American War (1846-48) that ended with the Treaty of Guadalupe Hidalgo, with Mexico ceding half of its land to the US that included all or parts of California, Arizona, Nevada, Utah, Colorado, Wyoming, and New Mexico, along with some remaining disputed territory in Texas. A final transfer of territory in 1854 -- the Gadsden Purchase -- added additional land to southern Arizona and southwestern New Mexico. (In southeastern Mexico, a revolt in 1847 by the indigenous Mayans in the Yucatán was one of the most successful revolts by Native Americans, and the Yucatán region remained a quasi-independent area until the 1930s).

During the 1850s and 1860s continuing political instability among the liberals and conservatives eventually led to a military occupation by France (supported by the conservatives), which established the Second Mexican Empire under the rule of the Hapsburg Archduke Ferdinand Maximilian of Austria. However, once the conservatives switched sides to join the liberals, the "reign" of Porfirio Díaz, a republican general during the French intervention, began in 1876 and lasted until 1911, with the exception of one four-year period between 1880-84.

As ever in politics, the putative political stability that characterized the long -- and almost uninterrupted 35-year -- rule of Porfirio Díaz was almost certainly accompanied by corruption, fraud, political favors, etc. That was precisely the perception of large swaths of the Mexican population and, because of allegations of electoral fraud, Díaz was forced into exile after his successful re-election in 1910. As a result of the ensuing power vacuum he left behind, this triggered the 1910 Mexican Revolution/Civil War. This period of extreme political instability continued until 1929, and in the intervening years a new Constitution was adopted (1917), over 900,000 Mexicans lost their lives, and three presidents and two revolutionary leaders were assassinated.

Following the 1928 assassination of the third elected president Alvaro Obregón, Plutarco Elías Calles founded the National Revolutionary Party (PNR) that was later renamed the Institutional Revolutionary Party (PRI), the party that ruled Mexico continuously for 71 years until the election of Vicente Fox in 2000. However, in spite of the implementation of many economic and social reforms over the seven decades of its uninterrupted rule, social inequality rose, Mexico remained a poor country (more about this below), and the PRI became more and more authoritarian, oppressive, and corrupted -- predictable symptoms of a long-lived political monopoly.

One of the most controversial actions taken by the PRI during its seven decade rule was the nationalization of the US and Anglo-Dutch oil company, the Mexican Eagle Petroleum Company in March 1938, that led to the creation of the State-owned Mexican oil company, PEMEX, whose remittances to the Mexican government continue to play an important role in the economic development of the country. (Much more about this below).

The quadrupling of world oil prices in the 1970s sowed the seeds of fiscal and monetary mismanagement in Mexico over the next decade. As the US began to bring its double digit inflation under control in the late 1970s and early 1980s with the aggressive monetary policy of the "Volcker Fed" that was responsible for the deep US recession in 1981-82, the decline in international oil prices, and the rise

in interest rates, Mexico, by 1982, was obliged to default on $80bn of external debt, resulting in rapid inflation as Mexico devalued its currency.

During the 1980s there were signs of cracks emerging in the PRI's monopoly of power -- attributed, as usual, to electoral fraud and corruption. For example, many Mexicans believed that the PRI's candidate Carlos Salinas de Gortari won the 1988 presidential election fraudulently, defeating a leftist candidate. Salinas implemented an array of market-oriented reforms that included strengthening Mexico's integration into the global market for goods, investment, and finance that was capped by the historic North American Free Trade Agreement that took effect in early 1994; an intensified program of privatization and deregulation to increase the efficiency of, and introduce competition into, some of the State-owned and/or privately-owned monopolies; a restructuring, in 1989, of the external debt over-hang from the 1982 crisis; and a major institutional change that granted the Central Bank of Mexico much-needed autonomy to stabilize the purchasing power of the peso.

With national elections approaching later in the year, in early 1994, the out-going Mexican administration began the traditional injection of additional spending into the economy to enhance the electoral prospects of their PRI successors. This precipitated an increase in the current account deficit to 7% of GDP. In brief, Mexico's fiscal and monetary policies were inconsistent with its exchange rate regime. Adding to the stress, the Zapatista Army of National Liberation began an armed rebellion against the federal government in Chiapas in early 1994 that was followed by the assassination of the PRI's candidate for president, Luis Donaldo Colosio, in March 1994. For his part, upon leaving office, Salinas left Mexico for self-imposed exile in Ireland.

As the economic and financial imbalances intensified, the newly-inaugurated president, Ernesto Zedillo, announced a modest (and, as it turned out, insufficient) devaluation of the peso on December 20, but within two days the government was forced to float the peso, resulting in a 52% depreciation of the peso against the dollar, triggering what became known as the Tequila Crisis (http://www1.worldbank.org/finance/assets/images/Crisis_Man.pdf).

With the Mexican economy in free fall, the US, together with the major international financial institutions, organized a $50bn bailout package to stabilize the Mexican economy and provide the financial resources needed to restore economic growth. The support package also required politically painful policy changes by the Mexican government and Central Bank that included: re-orienting fiscal policy towards increased public savings, that is, higher taxes; a restrictive monetary policy to contain inflation, that is, higher interest rates; and a free float of the exchange rate that would drastically curtail imports and encourage exports. Predictably, during the first year of the crisis household consumption fell by 10%, private investment declined by 30%, and overall, GDP was 7% lower than in 1994. Annual inflation, as a result of the large depreciation of the peso against the dollar, rose to 52% in 1995, but quickly declined to 27% in 1996 (http://www1.worldbank.org/finance/assets/images/Crisis_Man.pdf). The program, though painful, did stabilize the economy and restore growth, and did so without sacrificing Mexico's integration into the global economy, which, over the long-term, provides Mexico with a broader array of opportunities for increased growth and higher living standards. Average annual growth in GDP for the remainder of the Zedillo administration, from 1996-2000, was 5.0% (http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG).

Despite the successful program to restore economic growth during the later years of the Zedillo administration, apparently the economic pain and suffering inflicted by the Tequila Crisis was responsible for one more momentous event: the end of the PRI's 71-year monopoly of political power. So, along with the new century, in 2000 Mexico welcomed Vicente Fox of the opposition National Action Party (PAN) as their new president. Some have even argued that this was the year that Mexico finally became a democracy (Thomson, 2013a).

The Fox administration (2000-06) was notable for the absence of economic crisis: a relatively low rate of inflation (around 4.5% p.a.); no significant currency crisis; no growth in the Mexico's debt/GDP ratio; an annual flow of $20.6bn in foreign direct investment, and a decline in the population growth rate from 1.57% in 2000 to 1.16% in 2006 (Lapper, 2007). However, the annual rate of GDP growth, at 2.2% p.a., was the slowest rate of any Mexican administration, save during the de la Madrid years (1982-88)

(http://databank.worldbank.org/data/reports.aspx?source=2&country=MEX&series=&period). The government attributed the poor economic performance to slower growth in the US over the interval, and, more importantly, the stalemate with Congress, which rejected the administration's package of structural reforms that included a major overhaul of the tax code and an increase in the value-added tax to 15%. Fox argued for comprehensive immigration reform in the US in order to manage the flow of migrants from Mexico to the US (which increased 152% during his administration), along with annual Mexican remittances from the US (which increased from $6bn to $23bn from 2000-06) (Lapper, 2007). Fox was a strong advocate, in vain as it turned out, of the stillborn Free Trade Agreement of the Americas (FTAA), and his pro-US and pro-business orientation put him at odds with many of his Latin American counterparts in Argentina, Brazil, Venezuela, and most of Central America.

The economic stability -- though modest GDP growth -- that accompanied PAN's rule from 2000-2006 was rewarded by another six year term by PAN's successor candidate Felipe Calderón, who was declared the winner of a fiercely contested election that was decided by less than a 1% margin over the leftist candidate, Andrés Manuel López Obrador (AMLO). The major issues confronting the new administration included: increased drug-related violence that triggered a military offensive against organized crime that by the end of the Calderón mandate registered more than 70,000 deaths attributed to this internal "war", a number that has increased to 150,000 in 2015 (Thomson, 2013a; Malkin and Ahmed, 2015); the increasingly critical need to overhaul Mexico's out-dated energy regime because of PEMEX's declining oil production, whose cash-flow comprises about a third of Federal government revenue; an increasing poverty rate now in excess of 50% of the population, a record for a member country in the OECD (Webber, 2015e); the over-dependence of Mexico's economy on its northern neighbor -- almost 80% of Mexico's exports were shipped to the US (The Economist, 2011b); and much of the "to do" list left over from the previous administration such as tax and pension reform, reform of competition policy and the need to increase infrastructure spending. By the end of Calderón's mandate on November 30, 2012, despite a slightly lower rate of GDP growth than the Fox administration achieved -- annual growth of only 2.1% (United Nations, 2014) -- the out-going government was successful in pushing through some structural and tax reforms, though energy reform, arguably the most important, remained elusive.

Some Comparative Measures of Economic Wellbeing: Brazil, Mexico, and the United States

Determining the position of Mexico with regard to its level of development -- as a developed, developing or emerging-market economy -- or even fixing its "geographical" position -- in North America or Latin America -- is fraught with difficulty and uncertainty. For example, geographically, Mexico is as much a part of the North American landmass as is Alaska, and according to the United Nations Statistics Division's Standard Country and Area Codes Classifications (M49) (http://unstats.un.org/unsd/methods/m49/m49regin.htm), Mexico (494) is included in Central America (013), which is a component of the North America continent (003), that also includes the Caribbean (029) and Northern America (021), which itself includes the United States, Canada, Greenland, Bermuda, and Saint Pierre and Miquelan.

On the other hand, Mexico's cultural and historical ties to its southern neighbors -- near and afar -- are both strong and deep. As a result, the UNs' Statistics Division includes Mexico in a regional aggregate called Latin America and the Caribbean (419), which is comprised of Central America (013, that includes Mexico as mentioned above), South America (005), and the Caribbean (029). Consequently, despite Mexico's geographical location -- firmly planted in the North America landmass -- its statistics are reported in the North America continent (003), as well as in the non-geographical group called Latin America and the Caribbean (419). The United Nations administrative body for this "region" is the Economic Commission for Latin America and the Caribbean (ECLAC, in English or CEPAL, in Spanish), that is headquartered in Santiago, Chile and publishes annual publications such as the Preliminary Overview of Latin America and the Caribbean, among other technical reports about the region.

Mexico's classification with regard to its level of economic development is a more "judgmental" subject (code for "political"), and, as a result, even more unclear. The UN Statistical Division's classification system also aggregates countries (and sub-regions) into categories called "Developing Regions", of which Central America is a part (along with Mexico, by definition), "Least Developed Countries", and "Developed Regions", of which Northern America (021) and the United States, by definition, are a part, though with the qualification that "there is no established convention for the designation of "developed" and "developing" countries or areas in the UN system (http://unstats.un.org/unsd/methods/m49/m49regin.htm, footnote c).

The World Bank's Country and Lending Groups assign countries (and regions) by per capita income levels such as "low-income economies", "lower-middle-income economies", "upper-middle-income economies", "high-income economies", and "high-income OECD members" (which includes all 34 OECD member countries save Hungary, Mexico, and Turkey) (http://data.worldbank.org/about/country-and-lending-groups). Herein lies one of the anomalies associated with Mexico: It has been a member of the OECD since 1994, but it is still, so-to-speak, one of three "poor relations" in this exclusive "rich man's club".

To address the above-mentioned geographic/development paradoxes, Table 1, below, includes generally accepted comparative data that measure economic wellbeing and the "quality of life" for Mexico and for two like-sized countries in the hemisphere: Brazil and the United States. The first is geographically part of South America and a member of the UN's "Latin America and the Caribbean" region, while the second, a fellow OECD member, but more importantly, is a country to which Mexico has been firmly anchored -- for better or for worse -- for more than two centuries.

TABLE 1
MEXICO AND ITS LARGE REGIONAL NEIGHBORS: SOME COMPARATIVE DATAa

		Mexico	Brazil	US
GDP per Capita	Level (2014 $US, ppp)	18,000	16,200	54,400
	World ranking	92	100	19
Population	Level (m)	121.7	204.3	321.4
	Growth rate (%)	1.18	0.77	0.78
	Below poverty level (% of population)	57.3	21.4	15.1
	Fertility rate (%)	2.27	1.77	1.87
Education	Expenditure (% of GDP)	5.1	5.8	5.2
Health	Expenditure (% of GDP)	6.2	9.7	17.1
	Physician density rate (per 1,000 population)	2.1	1.89	2.45
	Infant mortality rate (per 1,000 live births)	12.7	18.6	5.9
Infrastructure	Paved roads (% of total)	36	14	65
Telecoms	Cellular subscriptions (per 100 inhabitants)	85	139	100
	Internet use (%)	41.1	53.4	86.8
Automobile Density Rate	Motor vehicles (per 1000 population)	275	249	809
Homicide Rate	Per 100,000 population	19	27	4

a. Latest available data
Source: Central Intelligence Agency (2014), UN Office on Drugs and Crime (2011)

PART 2. THE METHODOLOGICAL FRAMEWORK

Before discussing the areas in which reform will be needed to improve the long-term performance of the Mexican economy to the end of raising living standards, it is worthwhile reviewing some of the alternative “paths to prosperity” that have been proposed by the leading development experts -- individuals and institutions -- over the last half century.

The ideas of Raúl Prebisch (1959) and Hans Singer (1964) provided the intellectual firepower for the development blueprint anchored in “import substitution” because their thesis was based on the declining terms of trade for primary products and the dynamic benefits to the economy of a vibrant manufacturing sector. These concepts became operational policy in most of Latin America in the 1960s-70s, ensuring a large and growing role of the state in the economy through supportive taxes and subsidies if not direct ownership of productive capacity.

The role of state involvement in the economy for development purposes that is a corollary of the Prebisch-Singer thesis was actually the foundation of the work proposed earlier by Paul Rosenstein-Rodan (1943) and P.C. Mahalanobis (1955), which stressed increasing returns to scale and kick-starting growth through large-scale investments, and accelerating economic development by government encouragement of heavy industry, respectively.

These “inward” winds of economic development shifted in favor of more “outward” and “market-oriented” strategies that were advanced during the 1970s by Balassa (1971), Bhagwati (1978), Krueger (1978), and Little, Scitovsky, and Scott (1970). The “market-based” approach to improving the performance of the economy and to enhancing living standards reached its zenith with the views of a group of Latin American economists and policymakers, the World Bank (1991), and various academic and “think tank” development experts such as John Williamson (1994) with the so called “Washington Consensus” of the 1990s.

For example, in its 1991 World Development Report, the World Bank articulated four broad requirements that characterize a national economy as "battle ready" to meet the challenges of the fiercely competitive world economy. They included:

a. A stable macro-economy characterized by both fiscal and external balance and low and stable inflation;
b. the adoption of a competitive micro-economy that includes a substantial reduction in state ownership and management of productive assets and the elimination of price distorting subsidies and taxes;
c. strong global linkages that include adherence to GATT (now the WTO), low and uniform tariff rates, absence of non-tariff barriers, a uniform and market-determined exchange rate, a liberalization of the rules governing capital flows and foreign direct investment, and;
d. an active government policy that promotes social and economic investment, especially in the areas of education, infrastructure, and health.

In its 1997 World Development Report (World Bank, 1997), the Bank expanded the reach of the fourth requirement to include the promotion and enforcement of property rights, reducing the level of corruption in the country, and ensuring a reliable legal system -- some of the so-called “second tier” reforms.

The “Washington Consensus” (WC), which was originally compiled in 1990 and published by John Williamson (1994), enumerated a list of desirable conditions that, if adopted and adhered to, would, over time, put reforming countries on the path to success in the global economy. Since the late 1990s, because of its alleged failure to address the issue of poverty reduction directly, the Washington Consensus was subjected to heated intellectual debate within academia and the major international organizations such as the World Bank (Beattie, 2000). Nevertheless, this framework continued to assume a central role in the debate on development strategies for low- and middle-income developing countries during the first

decade of the 21st century. Readers interested in this debate are referred to Rodrik (2010) for a recent review of this subject. (Please see Table 2, below, for a list of its main points).

TABLE 2
MODIFIED "WASHINGTON CONSENSUS"

a. Fiscal and monetary discipline
b. Redirection of public expenditure priorities towards health, education, and infrastructure
c. Tax reform and improved tax administration
d. Unified and competitive exchange rates
e. Modernization of government and "quasi" government institutions
f. Deregulation
g. Trade liberalization and regional integration
h. Privatization
i. Elimination of barriers to foreign direct investment
j. Banking reform and financial liberalization

In light of the experience of the late 1990s (increasing poverty rates and stalled economic growth due to an adverse external environment), proponents of the Washington Consensus amended the original framework to ensure that fiscal policy is counter-cyclical to support economic growth in an economic downturn, and to focus on reducing income inequality by ensuring that the poor have access to assets, i.e., education, land titling, micro-credit and land reform, that will enable them to work themselves out of poverty (Williamson, 2003).

While the “reform decade” of the 1990s did restore growth in GDP and GDP per capita in Latin America when compared with the “lost decade” of the 1980s -- growth in GDP and GDP per capita from 1991-98 was 3.5% and 1.7% p.a., respectively compared with 1.0% and -1.0% p.a. in the 1980s (United Nations, 1998) -- many observers of Latin America contended that the “neo-liberal” reforms of the 1990s have not only “failed to deliver sustained growth, but have made the region more vulnerable and increased unemployment, poverty and inequality. As a result of all this, some political pundits asserted that Latin America was sinking back into populism and/or anti-market leftist nationalism” (The Economist, 2003). In 2015, this last statement is borne out for many countries in South America, in particular Argentina, Bolivia, Ecuador, and Venezuela.

In a review article of economic development blueprints, Dani Rodrik (2010) reviewed the experience of China, which over the last three decades arguably has had the most successful growth and poverty reduction program in recorded history, and notes that there does not appear to be any single orthodox Western economic plan that was adhered to by Chinese economists and policymakers.

Rodrik also observed that even in (now prosperous) Chile -- which was recently admitted to the Paris-based club of “rich” countries, the Organization of Economic Cooperation and Development (OECD) -- during the 1970s-80s a strict universally scripted development plan was abandoned and a more heterodox (and indigenously articulated) strategy was adopted even during the tense Pinochet era.

It now appears, according to Rodrik, that a more fruitful approach to prescribing a successful path to economic growth and development is one that is based on “diagnostics’, as proposed by Hausmann, Rodrik, and Velasco (2008) and Hausmann, Klinger, and Wagner (2008). In place of a “boiler plate” set of rules and a rigid, unyielding approach to growth these development economists propose to identify a country’s binding constraints and then prioritize the policy reforms given the political and social realities of the country involved. These authors argue that the earlier, carefully scripted paths to growth and development have not lived up to their expectations:

> “The currently prevailing view, as reflected in the World Bank’s (2005) report on the lessons from the 1990s or by the blue-ribbon Commission on Growth and Development (2008), accepts the importance of outward orientation but places much less emphasis on

> trade liberalization and is much more willing to condone a measure of industrial promotion in order to achieve and sustain high growth" (Rodrik, 2010; p. 40).

Rodrik praised China's so-far successful development approach of grafting a market system on top of a heavily regulated state sector (that was the orthodoxy of an abandoned Communist economic system) with China's development plan evolving over time as their binding constraints change: first in agriculture; then in industry; then in foreign trade; and eventually in finance, the environment, and pension reform.

It is important to note that despite its impressive poverty reduction cum economic growth program now in its fourth decade, China enjoys enormous leverage in the world because of its population of 1.4bn people -- almost 20% of the world's population -- that is increasingly willing and able to become "21st century consumers". China's voracious appetite for fuel and nonfuel minerals (Sohn, 2008a; Sohn, 2008b), "first world" foods and diets, electricity and other infrastructure goods, along with its still large though increasingly more expensive labor force, provides it with enormous "monopoly-like" and "monopsony-like" power on world resource, factor, and product markets. For example, China's policy regarding "local content" requirements for equipment used in the production of wind energy, the "Notice 1204" directive, was certain to be in violation of World Trade Organization rules. The directive has since been revoked, but not before its major objectives were achieved (Bradsher, 2010). The market access that it provides for the goods and services of global companies confers on China tremendous leverage regarding the terms it dictates for foreign (inward and outward) investment, the aid programs it operates, its carefully-controlled foreign exchange and capital account regimes, and, above all, its (lightly criticized and) stunted state of political and human rights best exemplified by the official treatment of Chinese dissident Liu Xiaobo, the 2010 recipient of the Nobel Peace Prize.

To be sure, particularly in the wake of the 2008-9 global financial crisis and the need for substantial global rebalancing, China's trade, savings, investment, capital account, and exchange rate policies are exacerbating the adjustments that are needed and increasing the political and diplomatic tensions in the world. The jury is still out whether China's one-party political system can be maintained in light of ongoing globalization and technological change.

Nevertheless, over the last few years, after a prolonged internal debate, even the thinking of the International Monetary Fund, in juxtaposing the harsh economic and financial consequences of the 1997-98 Asian crisis with the relative calm in China in the aftermath of the 2008-09 global financial crisis, has evolved on the need for, and desirability of, capital account liberalization as the complement of already liberalized current accounts for developing countries. This new 'institutional view' recognizes that liberalizing "developing countries capital accounts before they have reached a certain level of financial and institutional development is highly risky" (Plender, 2012).

Recently, Daron Acemoglu and James Robinson argued in favor of the critical role played by economic institutions in explaining the enormous differences in living standards across the world (Acemoglu and Robinson, 2012). They contend that these institutions determine the economic incentives and the resulting allocation of resources, investment, and innovations needed for growth. Ultimately, it is politics that shape these institutions and their evolution. It will, of course, be interesting to track, during the next few decades, the evolution of China's political system, especially in the light of slower growth since 2010 and a rebalancing of China's economy away from exports and investment towards consumer spending -- and if the changes that are introduced support the "right" economic institutions as argued by Acemoglu and Robinson.

In the next section -- which takes the measure of the Mexican economy -- I rely heavily on the "ingredients" prescribed in the market-based and outward-looking approach to economic growth and development noted in the above-mentioned World Bank reports, while at the same time being mindful of the contributions made by those advocating a more tailored approach to development that identifies binding national constraints and priorities in the quest for economic modernization over the next decade, in addition to the important role of institutions cited by Acemoglu and Robinson (2012) that was discussed above. The emphasis in this next section is on the ambitious "Pacto por Mexico", the Peña Nieto administration's plan for the economic, political, economic, and technological renewal of Mexico.

PART 3. THE STATE OF THE MEXICAN ECONOMY: STRENGTHS AND WEAKNESSES

Macroeconomic Stability

With a view towards improving the performance of the Mexican economy during the next decade it is useful to take the measure of the current state of the economy following the World Bank's "recipe" articulated in the early 1990s and described in Part 2, above. The first of the four broad requirements needed for a well performing national economy is macro-economic stability, generally characterized by both fiscal and external balance, low and stable inflation, and high levels of employment.

It would be of interest to examine these macro-variables over the last six years, that is, how the Mexican economy performed over the 2009-14 period. In light of the important role that the US economy plays in influencing the performance of the Mexican economy, the starting year of 2009 was selected because this year was the trough of the Great Recession in the US. It is important to mention that 2009 was the only year to date in this century that Mexico experienced negative economic growth, with Mexico suffering the steepest recession in the Americas -- a -4.7% drop in GDP -- in 2009 (United Nations, 2014). According to the data reported by the United Nations (2014), real GDP growth peaked the following year, in 2010, at 5.2% p.a., but has declined appreciably during the first two years of the Peña Nieto administration. The poor performance of the economy has been attributed to the administrative and operational lags associated with the current administration's expansive fiscal policy, the tax increases that were approved in 2013, the continuing anemic recovery in the US that impacts exports and inward foreign investment, and weak private -- both domestic and foreign -- investment because of the ongoing uncertainty over the implementation of the approved reforms, which are discussed below.

Over the 2015-19 interval, GDP growth is projected to increase to a still modest 3.8 % p.a. (EIU, 2014). However, the expectation is that if the reforms -- the subject of the next section -- are successfully implemented, they will propel Mexico's long-term growth rate potential into a higher orbit, to an interval between 3.5% - 5% p.a., depending on the strength of the synergies from the various reforms (IMF, 2014). It is important to recall that over the last three decades Mexican economic growth averaged only about 2.4% p.a. (Webber, 2014a). Hence the need for a comprehensive program of reform.

Because of Mexico's above-mentioned catastrophic debt and currency crises in the 1980s and 1990s, respectively, policy-makers are painfully aware of the importance of maintaining fiscal discipline that includes low and stable inflation, manageable budget deficits, and sustainable debt-to-GDP ratios. Since 1991, inflation has fallen from 22% to 4% p.a. (The Economist, 2014d). Mexico's central bank has a 2-4% target range for annual inflation (EIU, 2014), and since 2009, according to Table 3, below, annual inflation has averaged about 4%, the upper limit of the target range, though the most recent data report inflation running at an annual rate of 2.5%, close to the target range's lower limit (The Economist, 2015l).

From 2009-13, Mexico's federal government fiscal deficit was well-behaved with the annual (overall) deficit below 4% of GDP (UN, 2013; UN 2014). However, in 2014, the deficit reached 3.6%, which was acknowledged to be high for a non-crisis year, and could continue to range between 3-4% of GDP because of additional expenditures associated with implementing the government's reform program (EIU, 2014).

In the second half of 2015, because of a continuing decline in international oil prices, the government was forced to cut spending for the remainder of 2015 and for 2016 in order to maintain budget discipline even at the cost of lower GDP growth, which is expected to be 2.3% in 2015. Needless to say, continuing weakness in oil prices in 2016 and 2017 will seriously strain Mexico's ability to escape from its low-growth orbit by the end of Peña Nieto's mandate in 2018 despite the favorable effects of further peso depreciation and lower electricity and communication costs to consumers and business as the reforms in these two sectors take root.

TABLE 3
RECENT MACROECONOMIC DATA: MEXICO AND LATIN AMERICA, 2009-2014

Macroeconomic Variable	2009	2010	2011	2012	2013	2014
Gross Domestic Product (annual % change):						
Mexico	-4.7	5.2	3.9	4.0	1.4	2.1
Latin America and Caribbean	-1.3	6.1	4.2	2.6	2.7	1.1
Gross Fixed Capital Formation (% of GDP):						
Mexico	22.0	21.2	21.9	22.1	21.5	21.1
Latin America and Caribbean	18.9	19.9	20.7	20.6	20.4	19.3
Central Government Balance (% of GDP):						
Mexico	-2.3	-2.8	-2.5	-2.6	-2.4	-3.6
Latin America and Caribbean	-3.4	-2.6	-1.9	-1.9	-2.6	-4.0
Consumer Prices (Annual % change):						
Mexico	3.6	4.4	3.8	3.6	4.0	4.3
Latin America and Caribbean	4.6	6.5	6.8	5.6	7.3	9.3
Urban Unemployment Rate (average annual %):						
Mexico	6.7	6.4	5.9	5.8	5.7	6.0
Latin America and Caribbean	8.1	7.3	6.7	6.4	6.2	6.0
Employment Rate (% of working age population):						
Mexico	55.4	55.3	55.5	56.3	56.2	55.6
Latin America and Caribbean	54.8	55.4	55.9	56.3	56.3	NA
Current Account Deficit (% of GDP):						
Mexico	-0.9	-0.5	-1.1	-1.3	-2.4	-2.0
Latin America and Caribbean	-0.6	-1.3	-1.4	-1.8	-2.6	-2.4

Source: United Nations (2013, 2014)

President Peña Nieto has already pledged that there will be no additional tax increases during his remaining three years in office, therefore Mexico's debt-to-GDP ratio, a modest 40% in mid-2014, is likely to increase to about 50% because of "reform-related" expenditures related to health-care, pensions, energy, and the major infrastructure projects in Mexico City -- a new international airport and an extension of the metro network (The Economist, 2014d; Webber, 2014a).

In addition, important reforms that are being implemented to enhance fiscal discipline through the 2014 Fiscal Responsibility Law (FRL) include the adoption of a "public sector borrowing requirement" (PSBR), which is a broader measure of the public sector's fiscal position than the traditional "overall balance". This PSBR was made the official target for fiscal policy. Finally, a new Sovereign Oil Stability and Savings Fund was created to manage oil revenues in the wake of the energy reform legislation that is now being implemented to the end of increasing medium-term GDP by channeling future oil revenue in excess of budget revenue towards educational and other social programs (IMF, 2014; Spindl and Iliff, 2015).

Another metric that is of interest in assessing the macro-economic health of a country is the current account deficit as a percent of GDP. According to Table 3, Mexico's deficits can easily be financed by foreign direct investment flows, and its ratios over the 2009-14 interval are comfortably within range of its "neighbors". Over the next decade, as the privatization and liberalization reforms are implemented, Mexico expects to be a magnet for foreign investment capital that will boost its rate of economic growth. As a result, the intermediate-term forecast for Mexico's current account deficit is expected to decline to 1.6% of GDP over the 2015-2019 interval (EIU, 2014).

The Adoption of a Competitive Microeconomic Environment

According to the World Bank (1991), improving the microeconomic foundation of the national economy includes, among other things, a substantial reduction in state ownership and management of productive assets, and the elimination of price distorting subsidies and taxes. These and other impediments to growth are at the heart of the "Pacto por Mexico" -- a package of 95 reform proposals -- introduced by the newly inaugurated Peña Nieto administration in early December 2012 after being agreed to by the three main political parties (The Economist, 2013). The reforms, if successfully implemented, are designed to increase the potential and actual growth rates of the economy, along with increasing employment and reducing poverty rates. This section provides an overview of the most important areas of reform that are in the process of being implemented: energy reform; electoral reform; education reform; reform of competition policy; fiscal (tax and expenditure) reform; labor reform; and financial reform.

Because of the central role played in the national economy by Petroleos Mexicanos (PEMEX), Mexico's state-controlled and monopoly petroleum company since 1938, a short digression on the history and politics of petroleum in Mexico is essential. Arguably, the importance of PEMEX in Mexico can be compared with the budgetary contribution that CODELCO, the state-owned copper company, makes to the Chilean economy (but more), the "sacred" position of farmers in Japan (but more), and the "third rail" sensitivity of changes in the Social Security System in the US (but more), combined! Much-needed reform of the sector remained elusive for years until the domestic political "ducks" were successfully lined-up by the Peña Nieto administration in 2014.

PEMEX employs about 150,000 people, has amassed about $95bn in pension liabilities, $60bn in long-term debt, and is responsible for one-third of the Federal government's annual revenue. Its prime producing asset, the Cantarell field that was discovered in 1967, is being depleted and production is not being replaced. As a result, PEMEX's daily output of about 2.3m/b/d is more than 1m/b/d below its daily output a decade ago, even with higher international oil prices over most of the interval. Because of the revenue transfer to the government and the decline in oil production -- along with, most recently, a decline in global oil prices -- the company does not have the financial resources, the technology and the incentives to exploit the country's estimated 160bn barrels of hydrocarbon resources that include substantial deepwater deposits, huge shale oil potential, and abundant on-shore and shallow water prospects (Webber, 2014b).

The mechanics of reforming the energy sector in Mexico is daunting. Because of its "crown jewel" status in Mexico, a Constitutional change is needed to permit participation by foreign companies in the sector. This requires a 2/3 majority in Congress and the approval of the State legislatures as well. As expected, initial opposition to reform the sector was carried out by the PEMEX unions, left-wing politicians, and nationalists. Then legislation is required to specify the nature of the commercial arrangements that will be permitted. For example, can foreign oil companies engage in full-fledged private investment in the sector or will their participation be limited to profit-sharing agreements with the government or production-sharing ventures? Obviously, if private firms are undertaking considerable risk in these projects, will the potential returns be sufficient to justify the investment cost?

In addition, as a concession to domestic political realities, PEMEX is not being privatized, but is now permitted to engage in joint ventures with private -- including foreign -- firms, provided the commercial arrangements are mutually satisfactory. Of the country's formidable proven and probable reserves, 17% were set aside for auction to private companies (Spindl and Iliff, 2015). The potential benefits to Mexico are considerable: production levels of petroleum could double to 5m/b/d; and 500,000 new jobs could be created (Webber, 2014a) resulting from inward investment flows that could reach $100bn over the first five years, equal to the sum of all foreign direct investment in Mexico in the five years ending in 2013 (Webber, 2013).

The government successfully guided the reform bill through the constitutional minefield, making the necessary concessions to the opposing interest groups, and the bill was signed into law on August 11, 2014. A new energy regulator was established, the National Hydrocarbons Commission (CNH), and the first 14 shallow-water blocks were put up for bid in July 2015. However, the results of this auction were

disappointing since only two of the 14 blocks were successfully auctioned, with the largest players in the sector sitting on the sidelines most likely because their assessment of the profitability of these blocks -- through their projected future cash flows -- were insufficient to warrant the investment cost given the risks involved (The Economist, 2015j).

The second auction, held on September 30, 2015, was more successful. Of the five blocks put up for auction, three contracts were awarded. Bids were submitted by nine of the 14 companies permitted to participate, though the US majors were still absent. Analysts attribute the relative success of the second auction to the perceived higher productivity blocks auctioned in September as well as more "investor-friendly" rules associated with this auction than the June auction. The planned mid-2016 auction of deep-water blocks in the Gulf of Mexico, just south of the US areas, is expected to attract more oil majors because they are perceived to be more profitable, but continued weakness in international oil prices is certain to adversely impact the number of participants bidding for these high value deposits (Malkin, 2015; The Economist, 2015k).

Energy reform also had to include liberalization of the electricity sector to improve the competitive position of Mexico's manufacturing firms in order to enhance its position as a hub for exports to the US, Canada, Central America, and, even, Asia, as Chinese wages approach Mexican levels (Webber, 2015b). Electricity prices for industry and commercial enterprises were twice those in the US, and electricity prices to consumers were 75% higher than in the US (net of subsidies) (Webber and Rathbone, 2014). The Federal Electricity Commission (CFE), a state monopoly, supplies almost all the country's electricity, but before liberalization they were not permitted to sell natural gas to private users because that right was reserved for PEMEX. Because of a shortage of energy infrastructure, Mexico was importing one-third of its natural gas requirements and one-half of its gasoline requirements. In the future, private firms will be able to own and operate natural gas pipelines, and by the summer of 2014, over $26bn of pipeline projects were announced (The Economist, 2014b). CFE will build new gas-fired power plants in place of coal- and oil-fired plants, and private firms, such as CEMEX, will be able to sell self-generated power to third parties instead of being restricted to use it internally. Finally, consumers may also see lower gasoline prices, as downstream activities, such as gas stations, are opened to competition.

Recognizing that energy reform was going to be so critical to the success of his presidency, Peña Nieto needed to secure the support of the opposition National Action Party (PAN) ahead of the super-majority vote needed for constitutional changes. The political price demanded by PAN for this support was the end of a century-old ban on the re-election of politicians (except for sitting presidents), beginning in 2018 that could make them more accountable to voters than to corrupt party bosses. In addition, in order to reduce election fraud and ensure fairer elections, the opposition party also secured the formation of the National Electoral Institute, a federal committee to oversee local and regional elections. Finally, independent candidates, for the first time permitted to run in regional and congressional elections, did well in the June 2015 mid-term elections (The Economist, 2015h).

Mexico has near-universal enrollment in primary education and a rate of 70% in secondary education, however the 2012 OECD-administered PISA tests revealed that 54% of Mexican students failed to meet the most basic level of proficiency considered to be "necessary for participating productively in modern economies" (Porter, 2015). The first "shot" fired by the government in the "war for education reform" aimed at increasing the quality of education in Mexico came in February 2013 with the arrest of Elba Esther Gordillo, the leader of the politically powerful teacher's union, for alleged embezzlement of more than $150m (Rathbone, 2013). The 1.4m-member strong union, Latin America's largest labor union, has had an iron-clad grip on Mexico's public school system that has repeatedly put its interests ahead of Mexico's students and their parents. Because of their political power -- especially with State governors -- they have extracted huge financial and labor concessions such as being paid for 513 days a "year" for 200 days of work (The Economist, 2015b). Protests mounted by the union since the reforms were announced in early 2013 included blocking access to national highways, clashes with police, burning cars, forcing Congress to convene in an alternate venue, and shutting schools for more than two months for millions of school-children due to strikes (Montes, Iliff and Luhnow, 2013).

To be sure, the overhaul of Mexico's educational system was prompted not only by the perception of parents and students in Mexico's industrial northern and central states that the schools were not providing students with the educational tools required for an industrial society, but these perceptions were borne out by facts: Mexico's students continue to lag in their performance on standardized tests administered under the OECD's PISA program. The results from the 2012 exams that focused on mathematics indicated that Mexican students were "dead last" in the group of 34 OECD countries of which Mexico is a member (http://www.oecd.org/pisa/keyfindings/pisa-2012-results-overview.pdf).

The major educational reforms, approved by Congress in September 2013, included: performance testing to measure student achievement to be used -- for the first time -- in teacher evaluations; permitting new teachers to be drawn from a wider net than the existing union-controlled "teaching colleges"; the elimination of the traditional practice of "handing down" a teaching position from parent to child, a quasi-inheritance perk; an autonomous regulator, INEE, that would be independent of union control; and merit-based promotions for teachers.

Like the energy reforms, these reforms require constitutional changes so State legislatures must also approve them. As might be expected, ahead of Mexico's midterm elections in June 2015, because of fears that the teachers' union would boycott the elections, the government temporarily suspended the evaluation of teachers -- the centerpiece of its education reform (The Economist, 2015f). In the wake of the mid-term elections, in the southern state of Oaxaca, the governor, by decree, ejected the local chapter of the union (CNTE) -- which vigorously opposes the reform program -- from its stranglehold on education in the state (Webber, 2015f).

In conclusion, while there will be few tangible immediate benefits to the public from these educational reforms, they are long overdue if the focus is on the potential long-term gains to the national economy that include increasing Mexico's "stock" of human capital and higher productivity to the end of improving the growth prospects of the economy, and ultimately raising future Mexican living standards (IMF, 2014; Webber, 2015f).

Turning to the critical issue of competition policy, in March 2013, Peña Nieto announced the biggest shake-up in Mexico's telecoms and broadcasting history. As in the case of energy and education reform, changes in Mexico's competition policy also required constitutional change, that is, a super-majority in Congress and approval by the State legislatures. The objective is to bring down the cost of services in these sectors to consumers and businesses, to encourage increased foreign direct investment and jobs creation, to the end of increasing Mexico's growth potential. Part of the legislation includes the creation of a new autonomous competition authority, the FCE, with the power to assess fines and jail time for offenders, which is now looking for cartels in eggs, sugar, airport slots, and private pensions, and is also mandated to vet proposed mergers (The Economist, 2015m).

The telecoms and broadcasting sectors were characterized by little or no competition, resulting in high prices to consumers and business for these essential services. For example, in telecoms, América Móvil, owned by Carlos Slim, one of the world's richest men, had 70% of Mexico's mobile phone market and 80% of the country's fixed-line market, while, in broadcasting, Televisa controlled 70% of free-to-air broadcasting, with the rest operated by Azteca (The Economist, 2014a). A powerful new regulator, the Federal Telecommunications Institute (IFETEL) is vested with the authority to impose fines and even force asset sales in order to curb the market power of firms that have a 50% or more share of these markets by ensuring that potential rivals -- in particular foreign firms -- can enter these markets which, as in the energy sector, was not permitted heretofore (IMF, 2014). By the end of 2015, AT&T began operating in Mexico, the first heavy-weight competitor to enter the recently opened telecoms market since the reforms were implemented. In broadcasting, new entrants are being encouraged by creating two television channels where the two incumbents, Televisa and Azteca, are not permitted to engage (Thomson, 2013b).

Another important change being introduced is "local-loop unbundling" in telecoms. Mexico is one of only a few OECD-member countries that does not oblige the dominant fixed-line operators to share with their competitors "the last mile" that connects the local exchange to homes (The Economist, 2014a). Needless to say, this change should give new entrants into the sector access to customers' homes and

businesses without having to build their own networks, eliminating these fixed costs that would ultimately have to be incorporated into the price of service to the consumer. According to the IMF (2014), the secondary laws for the telecom sector reform have been approved by Congress, and by the end of 2015 it was reported that the cost to consumers of a mobile phone contract was half the price as in 2013, the cost of fixed-line calls declined by 4%, and the cost of mobile phone calls were 15-20% below the cost in 2013 (Webber, 2015h). The reform also created a national investment program to improve Mexico's digital infrastructure with the goal of insuring internet connectivity over the whole country by the time the Peña Nieto administration leaves office at the end of 2018 (IMF, 2014). Mexico has the lowest mobile broadband penetration rate in the OECD, with 14 subscriptions per 100 inhabitants, as compared with an OECD average of 72 per 100 inhabitants (Montes, 2014b).

One of the most important planks of the administration's reform program includes fiscal changes which incorporate tax, pension and health coverage reforms that, by extension, also embraces labor market reform. When the Peña Nieto administration took office in December 2012 federal tax revenue was approximately 10% of GDP, low by any standard. Most of the difference in this metric for Mexico from the average -- about 14.6% -- of the Latin America and Caribbean region can be explained by the uniquely large annual transfers made by PEMEX that historically constituted about one-third of the federal government's annual revenue. In addition, some potential tax revenue is escaping the government's coffers because of the exploitation -- mostly by the wealthy -- of corporate and personal exemptions and tax-avoidance loopholes in the tax code.

Also in 2013, Mexico did not have universal social security, unemployment insurance or health care systems, and 60% of the working age population paid no income tax in part because of low wages in the formal sector, but mostly because twice as many Mexicans work in informal employment than in formal jobs, and, therefore, had underfunded -- or no -- retirement plans (Thomson, 2013c; Bloomberg Business Week, 2014).

Labor market reforms are designed to make hiring and firing easier and to facilitate work arrangements to encourage more entry into the formal labor market -- especially to increase female participation rates. In addition, providing more, and less expensive, access by small businesses to credit and other financial services also encourages more businesses to join the formal sector with the objective of generating more tax revenue.

Needless to say, more government resources will be needed to finance the above-mentioned "entitlement programs" that translates into more tax revenue, especially with the ongoing rationalization of PEMEX in light of the energy sector reforms (please see above). To that end, in addition to eliminating the above-mentioned corporate and personal exemptions and loopholes and improved tax collection, the administration introduced a higher marginal tax rate (35%) on high-income tax payers, imposed a 10% tax on dividends and capital gains, and initiated excise taxes for the first time on "junk food", soft drinks, fossil fuels, and pesticides (http://www.ey.com/GL/en/Services/Tax/International-Tax/Alert--Mexico-s-tax-reform-is-signed-by-president-and-published). The tax reform legislation was passed by Congress and signed into law in late October 2013.

Finally, along with the impressive array of economic, structural, and institutional reforms described above the Peña Nieto administration introduced a number of complementary financial sector reforms that provide synergies for these other reforms. For example, the need to bring more small- and medium-sized businesses (and the large pool of labor working in the large informal sector) into the formal economy requires increased bank lending -- specifically by the publicly-owned development banks -- to these traditionally underserved sectors, primarily by enhanced micro-financing. But traditional banks are reluctant to provide credit to the poor because of the higher risks associated with their "informal" businesses. Though less than 7% of the 4m micro-businesses that comprise 95% of all Mexican enterprises had access to bank credit in 2013, the percentage is increasing (The Economist, 2015i). It is also important to note that two-thirds of Mexicans do not have bank accounts (Webber, 2015g). A by-product of this increased lending activity would be a rise in Mexico's historically low ratio of bank credit to GDP of 25%, about half the rate in Brazil and a third of the rate in Chile, the result of the lingering fear of debt among lenders from the "Tequila Crisis" in the 1990s. Other important financial reforms that were

implemented to increase the financial sector's efficiency per se include new provisions for credit and checking account portability that enhances competition in the sector by facilitating switching banks by clients and an aggressive campaign to incorporate more of Mexico's growing middle-class into the modern banking system, including increased credit card issuance (IMF, 2014; Thomson, 2013b). In 2015, only 15% of Mexicans had a credit card and only 50% had overdraft privileges (The Economist, 2015c).

To conclude this section it is important to note that a by-product of the reforms described above is to improve the quality and quantity of public services, in part by raising more government revenue, specifically, more tax revenue from income growth. Mexico's ratio of tax revenue to GDP is the lowest of any country in the OECD (https://stats.oecd.org/Index.aspx?DataSetCode=REV). The energy reforms will reduce the government's reliance on oil sector revenue, so the labor market, tax, and competition policy reforms are expected to contribute to an increase in government tax revenue as a percent of GDP.

Global Linkages

Adhesion of the national economy to the larger global economy is becoming indispensable to improving a nation's material wellbeing. It is without doubt that the successful development model implemented by China over the last three decades is, in part, due to China's re-engagement with the world economy after decades of economic autarky.

Consumers benefit from liberalized trade by having more choice of goods, often at lower prices and/or with higher quality. More competition faced by domestic producers from imported goods reduces domestic producers' pricing power, and provides crucial incentives to enhance efficiency and productivity. The prospects of higher exports (in part to pay for increased imports) raise both national employment and income.

Liberalization of the capital account, provided the domestic banking system is sufficiently strong, along with a unitary and market-based exchange rate, can confer benefits to both borrowers and investors alike. Lower interest rates for borrowers, and improved risk/reward tradeoffs for investors, as well as greater discipline on the public finances imposed by these open capital markets complement the benefits provided by a liberalized trade account. It is important to note that policy experts are still debating the cost/benefit calculus for developing countries of full capital account liberalization in light of the Asian financial crisis at the end of the 1990s and the financial meltdown in the US and Europe a decade later (Beattie, 2011; Plender, 2012). Finally, providing a "state-of-the-art" legal, tax, and regulatory environment for foreign investment is critical for attracting and maintaining much-needed financial capital, new technology, and managerial talent for the national economy.

Mexico is considered to be a robustly open economy for trade with its share of exports in GDP increasing from 2% in 1980, to 24% in 2010, and to 33% in 2013 (Thomson, 2012; Webber, 2013) and, in light of the above-described reforms enacted in the energy sector and in competition policy, inward foreign investment is also expected to increase significantly in the coming years.

Arguably, Mexico's determination to honor its obligations under the 1994 North American Free Trade Agreement even as the national economy imploded as a result of the "Tequila Crisis" testifies to the importance liberalized trade with its large North American neighbors is to Mexico's future economic prospects. By signing on to NAFTA Mexico made a historic concession: "its economic destiny lies mainly to the north, not the south, embracing free markets and globalization" (The Economist, 2015g). In 2015, approximately 80% of its exports were destined for the US market, while 15% of US exports were sent to Mexico, twice the percentage exported to China (Harrup, 2015b; Blitz, 2015). Mexico is now the world's seventh leading automobile producer -- the largest producer in Latin America -- and the world's fourth biggest exporter of cars with more than 80% of its automobile output exported to North America (Althaus, 2015).

With Chinese labor costs rising, recently complemented by favorable currency movements for Mexico with respect to the US dollar and China's renminbi, Mexico is becoming a favored destination for "reshoring" US manufacturing firms into the Americas, especially if the energy and competition policy reforms bear fruit to the end of reducing the cost of doing business in Mexico. A recent study by the Boston Consulting Group reported that, based on an index that reflect the cost of manufactured goods,

Mexican costs were lower than Chinese costs (Tabuchi, 2015). Mexico is being transformed from low-value maquiladora employment to higher-value technology, design, and high-end manufacturing at a fraction of the average wage in North America (Harrup, 2015b). Already, Mexican think tanks have identified white goods, electronics and computing, plastics, and medical equipment as attractive sectors for production and exports in the coming decade (Webber, 2015b).

In 2000 Mexico signed a Free Trade Agreement (FTA) with the European Union (EU), and to date Mexico has signed FTAs with 45 countries whose economies, together, account for 60% of global GDP (Althaus and Boston, 2015). Recently -- returning to its roots -- Mexico became a founding member of the (so far five-nation) Pacific Alliance (2012), the fledgling Latin American trade bloc that expects to abolish tariffs on 92% of merchandise trade by 2020. Additional economic and financial integration, as well as exploiting some potential diplomatic "economies of scale" such as "embassy sharing", are also being considered by the group. Finally, with a view towards benefiting from the dynamic growth in the Asia-Pacific region, in September 2012, Mexico officially joined the negotiations on the Trans-Pacific Partnership (TPP), a key trade initiative of the Obama administration, whose ratification by the US Congress by the end of the president's term in office is now in doubt (Mauldin, 2015). Like the US, Mexico too has domestic political issues with the small print of the proposed TPP agreement, in particular the automobile protocol of the treaty. Mexico, which employs more than 700,000 workers in its auto industry, wants tougher rules than NAFTA regarding the maximum percentage of car parts permitted from countries that are outside TPP, i.e., China that can be embedded in the automobile exports of a TPP-country, such as Japan (Mauldin and Althaus, 2015). At the same time, Mexico has been forging closer bilateral economic ties with both Brazil and China, though neither is a party to the TPP (EIU, 2014).

Turning to foreign direct investment (FDI) -- a component of the investment aggregate in the GDP -- which serves as a source of job creation and increased productivity for the national economy, one of the main objectives of the reform program described above is to improve the business environment in order to attract inward direct investment. In addition to the jobs generated by these new projects, as innovative production and management techniques are introduced into the economy, there are sectoral productivity gains that flow "downstream" economy-wide.

From 2000-12 annual FDI into Mexico averaged approximately $23bn, surging to $42bn in 2013 (mainly due to a large one-off acquisition by the Belgian brewer Anheuser-Busch InBev's of Mexican beer giant Grupo Modelo), and receding back to the average in 2014 as a result of continuing fears associated with the implementation of the regulatory, tax, and policy changes, particularly in the energy, telecoms and broadcasting sectors (Harrup, 2015a).

American, European, and Asian countries are investing in Mexico in order to have a base to export to the large and rich North America and European regions, and companies from these countries are also looking at the prospects of exporting to the swelling new middle class in Asia as well in light of the increasing cost pressures in China (Althaus and Boston, 2015). For example, in 1985, Mexico accounted for 3% of North American automobile production and three decades later Mexico produces about 20% of North American automobile output (Sharman, Webber and Inagaki, 2015), partly explained by an hourly wage of $28 in the US versus $9 in Mexico (Vlasic, 2015).

The Peña Nieto administration is aggressively promoting the opening of the energy sector to private -- and foreign -- investment as the State-owned PEMEX loses its monopoly position and the ban on foreign participation in the oil sector has been lifted. Initial estimates of new FDI in the sector ranged between $20-$100bn from 2014-2018, cumulatively. These amounts are significant since total FDI in Mexico for the five years to 2014 was $105bn, about $21bn a year (Webber, 2013). The disappointing results from the maiden auction of energy fields in July 2015 was attributed to the relatively unproductive blocks put up for bid, differences among the buyers and seller regarding future oil prices, and some still unresolved regulatory issues that have side-lined the oil "majors" from entering bids (The Economist, 2015j). However, as was mentioned above, some of these obstacles were removed for the September 2015 auction.

Finally, since Mexico remains committed to a market-determined floating exchange rate versus the US dollar, the central bank rarely intervenes in the foreign exchange markets, and hard currency reserves

are ample (IMF, 2014). That said, Mexico is sensitive to shifts in global capital flows because 35% of its sovereign debt is owned by foreigners. As a result, the policy shift by the US Federal Reserve to normalize interest rates that began at the end of 2015 is already causing increased financial uncertainty in Mexico. It is important to note that the Mexican peso is the most actively-traded emerging market currency (Bloomberg Business Week, 2014). In order to exploit the opportunity created by the extremely low interest rate environment that may be ending, Mexico has already issued "century" bonds -- bonds with maturities of a hundred years -- in US dollars, pounds sterling, and most recently (April 2015) in euros, at a coupon rate of 4.2% (The Economist, 2015d).

An Active Government Policy to Promote Social and Economic Investment

The last of the four World Bank "ingredients" to be included in a well-managed national economy is an active government policy that promotes social and economic investment, especially in the areas of poverty reduction, health, education, and physical infrastructure, including transport, telecommunications, and energy. For many of the world's countries during most of the second half of the 20th century rapid economic growth led to increased living standards that were accompanied by marked improvements in public health systems, nutrition, greater access to education, and, as a result of all-of-the-above, significant increases in life expectancy and reductions in infant mortality and adult morbidity rates.

In its most recent Human Development Report, the United Nations Development Program (UNDP, 2014) ranked Mexico 71st out of 187 reporting countries in its key metric, the Human Development Index, slightly above its regional average. The index measures the average achievement in three basic dimensions of human development: life expectancy; education levels; and the standard of living (measured by GDP per capita). The World Bank's Worldwide Governance Indicators (WGI) for 2013 reports country percentile rankings against the world (and various regions) for six measures of "good government". In four of these six categories (voice and accountability; political stability and absence of violence; the rule of law; and control of corruption) Mexico's ranking is below -- and for some, significantly below -- its regional average, and only in the categories of government effectiveness and regulatory quality is Mexico ranked above its regional average (http://info.worldbank.org/governance/wgi/index.aspx#countryReports).

According to the OECD, Mexico's "relative" poverty rate, based on its national poverty line, oscillated around 50% of the population over the last 30 years (Webber, 2014a). That percentage includes approximately 20% of the population living in "extreme" poverty (OECD, 2015). The rate is higher still in Mexico's challenged southern states.

The bloated poverty rate can be partly explained by the low minimum wage in place in Mexico. At the end of 2014 the legal minimum wage in Mexico was $ 5.12 US a day, about 65 US cents an hour, as compared with an hourly federal minimum wage of $7.25 in the US. It is also important to note that approximately 13% of the work force earned the minimum wage, and this minimum wage was the equivalent of only 19% of the average wage in Mexico as compared to 43% of the average wage in Chile, virtually guaranteeing that those earning the Mexican minimum wage would fall below the poverty line (The Economist, 2014d; Montes, 2014a).

While suppressing the Mexican minimum wage was in part policy-driven to restrain inflation, it is clear that income growth -- particularly for those in informal employment -- is a necessary condition to reduce the poverty rate. Hence the importance of the comprehensive reform program and for the ongoing process of deeper and wider integration into the global economy both summarized above, that, if successful, would propel the economy into a higher "growth orbit".

Another major obstacle to increasing the growth potential and efficiency of the Mexican economy is the perceived "deficit" in physical infrastructure. In 2013, less than 40% of Mexico's roads were paved which, in part, explains the relative inefficiency of transporting goods in Mexico. For example, it was estimated that because of the poor state of Mexico's roads and ports it required twice as long to "turn around" a container ship in Mexico -- 12 days versus 6 days -- as in the US (Thomson, 2013d).

Recognizing the importance of modernizing Mexico's physical infrastructure, since 2007 annual spending on infrastructure has increased from 3.2% to 5.5% of GDP (Thomson, 2013e). Arguably, the

signature infrastructure project of the current administration is the construction of a new international airport to replace the existing one in Mexico City, the most visited city in Latin America which welcomed more than 30m tourists -- and their expenditures of $19bn -- in 2014 (Imison, 2015). In addition, the capital's metro system is being expanded and, as a part of the education reforms discussed above, state-of-the-art schools equipped with digital "plumbing" (high-speed internet connection) are being built to the end of enhancing the efficiency and quality of the country's education system (The Economist, 2014e). However, as mentioned above, partly because of the budget stress caused by the steep decline in international oil prices, many key infrastructure projects are being postponed or canceled (Harrup and Pérez, 2015).

The last two components in the World Bank's fourth "ingredient" that was expanded to include the "second tier" reforms (World Bank, 1997) -- public security and governance -- impact the quality of life, directly and the economy, indirectly. Ever since the Caribbean-cocaine smuggling route was shut down in the 1980s, Colombia's drug lords turned to Mexico with its 2,000-mile border with the world's largest consumer market for drugs to facilitate the transport and distribution of illegal drugs to the US. Today, Mexico supplies half the heroin sold in the US (Webber, 2015d).

Drugs-related activities breed insecurity, kidnapping, theft, murder, extortion, and corruption, all, regrettably, in abundance in Mexico. According to the United Nations Development Programme, Latin America is the only region in the world where the murder rate increased from 2000-10 (The Economist, 2014c), and much closer to home, the isthmus of Central America is considered the "most routinely murderous region on earth" (The Economist, 2011a). Living in a "bad neighborhood" has significantly increased Mexico's homicide rate, reported at 18.1 per 100,000 of population in 2010, more than three times the US rate, which itself is four times the rate in Western Europe (UN Office on Drugs and Crime, 2011). Since 2006 a military offensive -- the "war on drugs" -- was launched against organized crime and, to date, more than 150,000 people have died, directly and indirectly, from this drug-related violence, while another 26,000 people are officially listed as "missing" in Mexico (Malkin and Ahmed, 2015).

Drug-trafficking and the violence associated with it impacts decisions regarding foreign direct investment, and, as a result, the performance of the economy, in addition to its growth potential. It deters foreign investment because of the increased costs incurred to secure the human and physical assets of foreign corporations against drug-related crime. One study cited that drug-related violence in Mexico reduces GDP by 1% p.a. (The Economist, 2011b). Arguably, the most egregious drug-related event occurred in September 2014 when 43 students, who, protesting at a public event held by the wife of the mayor of Iguala (in the State of Guerrero), were rounded up by the local police, handed over to a drug gang, and then murdered and allegedly burned (Luhnow, 2014). In September 2015 a group of experts appointed by the Inter-American Commission on Human Rights criticized the government's report on the 43 missing (and presumed dead) students, adding to the mistrust and cynicism that Mexican's harbor towards the Peña Nieto administration (Ahmed, 2015). Today, every day in Mexico, 55 people are murdered (a lower rate than in 2011), an estimated 90,000 predatory crimes (that include kidnapping and extortion) are committed, and only 2% of serious crimes are solved, while an estimated 95% of crimes go unreported to the police, who are untrusted (The Economist, 2015a; Luhnow, 2014; Webber, 2015a). In the June 2015 mid-term election campaign, five candidates running for office were shot to death, and, most recently, the day after her January 1st inauguration as mayor of Temixco, a city of about 100,000 people, Gisela Mota was fatally shot by suspected drug-related assassins (New York Times, 2015; New York Times, 2016). While this drug-related violence remains a national challenge because drug-trafficking is so lucrative, a comprehensive long-term solution will require deeper bilateral agreements and much closer coordination with the US, the destination of most of these drugs.

In the past the biggest obstacle to "good government" in Mexico was the monopoly the PRI had on political power, a 71-year rule that ended, temporarily, from 2000-12. However, with one of the electoral reforms now being implemented that permits the re-election of politicians (save sitting presidents), voters -- not party bosses -- will now have a stronger hand (Wainright, 2012). Mexico's low ranking in Transparency International's latest "Corruption Index" -- 103 out of 175 countries -- testifies to the

degree of corruption, lack of transparency and accountability in government, and the weak rule of law in Mexico (Webber, 2015c).

The public perception that local and State police forces, judiciaries, and politicians are controlled by money and threats from organized crime is demonstrated in the polls and in the results of the recent mid-term elections in June 2015: a mid-2014 poll indicated that only 33% of Mexicans's felt the country was on the right path (Webber, 2014a) and the rule of law -- or more precisely, its absence -- is perceived as the country's most important challenge (Rathbone, 2015). Bribes, corruption, extortion, the culture of crime and violence are beginning to up-end the economic, political, and social reforms of the Peña Nieto administration (Financial Times, 2015). A June 2015 survey showed that "fewer than 10% of Mexican's trust their political parties" (Althaus and Luhnow, 2015), and the "anti-party" sentiments voiced in a pre-mid-term election poll were interpreted as voter's anger regarding the unacceptable level of violence and corruption prevailing in Mexico (The Economist, 2015e).

The fear is that with the Peña Nieto administration the PRI is back in power after a dozen years of PAN governments, and the party is once again exercising a corrupting influence on Mexican society. In 2014, Mexico witnessed corruption, impunity, conflicts of interest, and influence peddling at the highest level of state. Allegedly, in return for a lucrative federal government contract worth $3.7bn to build a high-speed rail link, a long-term confidant of the president from his days as a politician in Mexico state, Juan Armando Hinojosa Cantú, built, sold, and then financed a $6m property for the president and his wife. A second house owned by Mr. Hinojosa was sold to Finance Minister Luis Videgarray at the same price that it was bought 10 months earlier. It was also disclosed in early 2015 that Mr. Hinojosa is financing that house too, at a rate of interest 5% points below the average mortgage rate (Montes, 2015). The rail-link contract was canceled by the president. Needless to say the lawlessness and corruption are becoming a drag on the economy.

To conclude this section, the on-going implementation of the comprehensive Mexican reform program described above can be summarized by the following statement: "Mexico is one of the few emerging-market countries that is fixing its roof while the sun shines" (The Economist, 2015d), though storm clouds are now gathering because of the chronic corruption and increasing insecurity in Mexican society.

CONCLUSION

Over the last quarter century political leaders and policymakers in virtually every country in the world have been confronted with the same question: In the wake of widespread political, technological, and institutional change around the world, for countries that are firmly anchored in the global economy of the 21st century, what adjustments are required in the architecture of a country's economic and financial policies that will lead to improvements in material wellbeing for the population at large? From China to Brazil, Russia to South Africa, Japan to Australia, India to North Africa, and, even from the United States to Western Europe, all have struggled, or are struggling, with the same "existential" problem: how can countries increase -- or, in the worst case, maintain -- living standards for the bulk of their populations, given the "cards they have been dealt"?

The objective of this paper is to present the predicament of Mexico, a country that is located in a fortuitous cross-roads of today's global economy: at the southern rim of the large and wealthy North American continent and at the northern boundary of the equally large though much less prosperous Central and South American landmass with which Mexico shares deep historical and cultural ties that are anchored in Europe's Iberian peninsula. Like Canada and the US, Mexico's sovereign access to both the Atlantic and Pacific Oceans facilitates its east-west seaborne trade with both Europe and the Asia-Pacific countries.

How does Mexico utilize its natural and "man-made" assets -- its prodigious oil deposits and other natural resources, its favorable demographics in the first third of the 21st century, and its geographical position, openness to trade, and not least, its relatively low-wage labor force (even by Asian standards) -- to improve the performance of it national economy?

This paper has described and analyzed this pool of "national assets" that, if properly organized and managed, can provide the required annual income flows to improve material wellbeing for the majority of Mexicans. On the other hand, this paper has also provided a detailed account of Mexico's considerable array of "national liabilities", primarily institutional weaknesses -- its chronic corruption, weak rule of law, drug-related crime and violence, the skills-deficit of its labor force in the 21st century global economy, its rising (and already embarrassingly high) poverty rate, and its increasing income-inequality metrics -- that, if not adequately addressed or, at worst ignored, will retard and possibly reduce the prospects for improved living standards for the vast majority of Mexico's 125m people over the next decade. It is important to note that most of these national shortcomings are not being addressed in the ambitious reform program now being implemented by the Peña Nieto administration that is the major focus of this paper.

REFERENCES

Acemoglu, D. & J. Robinson. (2012). Why Nations Fail: The Origins of Power, Prosperity, and Poverty, New York: Crown Business.

Ahmed, A. (2015). Report Renews Hope and Doubt on Missing Students in Mexico, The New York Times, September 10.

Althaus, D. (2015). Mexico Sets Auto Production Record, Aims for More, The Wall Street Journal, January 8.

Althaus, D. & W. Boston. (2015). Trade Pact Gives Mexico An Edge, The Wall Street Journal, March 18.

Althaus, D. & D. Luhnow. (2015). Mexican Voters Snub Top Political Parties, The Wall Street Journal, June 9.

Balassa, B. & Associates. (1971). The Structure of Production in Developing Countries, Baltimore and London: Johns Hopkins Press.

Beattie, A. (2000). World Bank Stages Intellectual Battle over Globalization, Financial Times, June 30.

Beattie, A. (2011). Tension Over Capital Flows Draws IMF Into the Fray, Financial Times, January 6.

Bhagwati, J. (1978). Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes, Cambridge, MA: Ballinger Press.

Blitz, R. (2015). Weaker Loonie Prompts US to Broaden Horizons, Financial Times, September 23.

Bloomberg Business Week (2014). View: Mexico's Reformer Needs to Press On, January 6.

Bradsher, K. (2010). China Sets Rules and Wins Wind Power Games, The New York Times, December 15.

Bussey, J. (2011). Ripples Likely from a Wider Canal. The Wall Street Journal, November 11.

Central Intelligence Agency. (2015). The World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html

Commission on Growth and Development. (2008). The Growth Report: Strategies for Sustained Growth and Inclusive Development, Washington, D.C.

Davis, J.H. & M. Shear. (2014). 57,000 Reasons Immigration Overhaul May Be Stalled for Now, The New York Times, July 17.

Economist Intelligence Unit. (2014). Mexico Country Report, October, London, U.K.

Financial Times. (2015). Peña Nieto's Reforming of Mordant Mexico (Editorial), March 5.

Harrup, A. & S. Pérez. (2015). Oil's Fall Prompts Mexico to Cut Spending, Suspend Rail Project, The Wall Street Journal, January 31.

Harrup, A. (2015a). Mexico's Foreign Direct Investment Falls in 2014, The Wall Street Journal, February 24.

Harrup, A. (2015b). Latin American Currencies Are Heading South, The Wall Street Journal, July 21.

Hausmann, R., B. Klinger & R. Wagner. (2008). Doing Growth Diagnostics in Practice: A 'Mindbook', Harvard University Center for International Development Working Paper 177, September.

Hausmann, R., D. Rodrik & A. Velasco. (2008). Growth Diagnostics (Chapter 15), in The Washington Consensus Reconsidered: Towards a New Global Governance, Eds. J. Stiglitz and N. Serra, New York: Oxford University Press.
Imison, P. (2015). Diverse Attractions Lure Back Savvy Travelers, (Modern Mexico, FT Special Report), Financial Times, March 4.
International Monetary Fund. (2014). Mexico, 2014 Articles IV Consultation, Press Release No.14/319, November, Washington, D.C.
Krueger, A. (1978). Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences, MA: Ballinger Press.
Lapper, R. (2007). Nation Set to Earn Its Way Out of the Shadows. Mexico Business & Infrastructure, (Special Report), Financial Times, May 9.
Leahy, J. (2015). Brazil's Record Fall in GDP Puts It On Track for Worst Recession Since 1930s. Financial Times, December 2.
Little, I., Scitovsky, T. & M. Scott. (1970). Industry and Trade in Some Developing Countries, London: Oxford University Press.
Luhnow, D. (2014). Mexico Hit by Unrest, Scandal, The Wall Street Journal, November 15.
Mahalanobis, P. (1955). The Approach to Operations Research to Planning in India, The Indian Journal of Statistics, 16(1/2), 3-62.
Malkin, E. (2015). Successful Auction for Oil Drilling Contracts in Mexico After Weal Debut, The New York Times, October 1.
Malkin, E. and A. Ahmed. (2015). U.S. Cuts Aid to Mexico As Human Rights Rebuke, The New York Times, October 20.
Mauldin, W. & D. Althaus. (2015). Trade Pact Stalls Over Car-Parts Dispute, The Wall Street Journal, September 4.
Mauldin, W. (2015). Trade Bill Advances; Pacific Deal in Doubt, The Wall Street Journal, December 12.
Montes, J. & A. Harrup. (2013). Mexican President Announces Tax Overhaul, The Wall Street Journal, September 9.
Montes, J., L. Iliff & D. Luhnow. (2013). Mexico Takes Big Step to Open Energy Market, The Wall Street Journal, December 13.
Montes, J. (2014a). Pressure Rises in Mexico to Lift Wages, Among Lowest, The Wall Street Journal, August 29.
Montes, J. (2014b). Mexico Builds a New Wireless Network, The Wall Street Journal, November 1.
Montes, J. (2015). More Details Emerge on Finance Minister's Property Deal, The Wall Street Journal, March 19.
New York Times. (2015). Several Candidates Are Killed in Drug-Plagued Areas of Mexico, May 16.
New York Times. (2016). Mexico Mayor Is Fatally Shot a Day After Taking Office, May 3.
OECD. (2015). Economic Survey of Mexico 2015, Paris.
Plender, J. (2012). Growth Targets Risk Currency Wars and Capital Controls, Insight, Financial Times, December 19.
Porter. E. (2015). More in School, But Not Learning, The New York Times, May 13.
Prebisch, R. (1959). Commercial Policy in the Underdeveloped Countries, American Economic Review, 49(2), 251-73.
Rathbone, J.P. (2013). Reform Plan Lifts Hopes for Greater Prosperity, Financial Times, March 21.
Rathbone, J.P. (2014). South America's boom is ending: Now for the political hangover, Global Insight, Financial Times, September 26.
Rathbone, J.P. (2015). In the Balance: Parallel Visions of Malaise and Promise, Modern Mexico (Special Report), Financial Times, March 4.
Reid, M. (2010). So Near and Yet So Far: A Special Report on Latin America, The Economist, September 11.
Rodrik, D. (2010). Diagnostics Before Prescription, The Journal of Economic Perspectives, (volume 24, number 3), Summer.

Rosenstein-Rodan, P. (1943). Problems of Industrialization in Eastern and South-Eastern Europe, Economic Journal, (53), 202-11.
Sharman, A., J. Webber & K. Inagaki (2015). Ford Invests $2.5bn in Mexico's Car Boom, Financial Times, April 17.
Singer, H. (1964). International Development: Growth and Change, New York: McGraw- Hill.
Sohn, I. (2008a). Minerals-Supply Security and Minerals-Use Efficiency: Some Observations from the 1970-2005 Interval, Minerals and Energy, 145-61.
Sohn, I. (2008b). Energy-Supply Security and Energy-Intensity: Some Observations from the 1970-2005 Interval, Minerals and Energy, 184-87.
Spindl, B. and L. Iliff. (2015). Mexico Strains to Lure World's Oil Giants, The Wall Street Journal, September 30.
Tabuchi, H. (2015). Chinese Textile Manufacturers Bring Jobs Back to America, The New York Times, August 3.
The Economist. (2003). Wanted: A New Regional Agenda For Economic Growth, April 26.
The Economist. (2011a). The Tormented Isthmus: Central America, April 16.
The Economist. (2011b). Making the Desert Bloom: Briefing Mexico's Economy, August 27.
The Economist. (2013). Governing Mexico: The Suits v the Street, September 7.
The Economist. (2014a). Telecoms in Mexico: Slim's Chances, March 1.
The Economist. (2014b). Mexico's Reforms: The Power and the Glory, July 5.
The Economist. (2014c). Crime in Latin America: A Broken System, July 12.
The Economist. (2014d). Stingy By Any Measure: Mexico's Minimum Wage, August 16.
The Economist. (2014e). Mexico's President: Turning On the Charm, September 6.
The Economist. (2014f). The Man From MIT: Mexico's Finance Minister, November 24.
The Economist. (2015a). Bello: The Mexican Morass, January 24
The Economist. (2015b). Mexican Education: Flunking the Test, March 7.
The Economist. (2015c). Startups in Mexico: Techs-Mex, April 4.
The Economist. (2015d). Investment in Mexico: The 100-Year View, May 2.
The Economist. (2015e). Mexico's Mid-Term Elections: Bucking the System, May 30.
The Economist. (2015f). The World This Week: Politics, June 6.
The Economist. (2015g). Bello: Mixing Tequila and Caipirinha, June 6.
The Economist. (2015h). Mexico's Mid-term Elections: Punishing Bad Behavior, June 13.
The Economist. (2015i). Learning the Lessons of Stagnation: Latin America's Economies, June 27.
The Economist. (2015j). Oil in Latin America: The Good Oil Boys Club, July 18.
The Economist. (2015k). Mexico's Oilfield Auction: Lessons Learned, October 3.
The Economist. (2015l). Shopping Therapy: Mexico's Economy, November 7.
The Economist. (2015m). Bello: The Toilet Paper Tangle, December 5.
Thomson, A. (2012). Open Economy Brings Rewards, (The New Trade Routes: Mexico, FT Special Report), Financial Times, April 17.
Thomson, A. (2013a). Aztec Tiger, Analysis, Financial Times, January 31.
Thomson, A. (2013b). New Rules Bring Party to an End for Dominant Operators, (Mexico, FT Special Report), Financial Times, March 21.
Thomson, A. (2013c). Birth Rate Fall and Prospects of Longer Life Cloud Mexico's Future, Financial Times, June 4.
Thomson, A. (2013d). Bright Shipping Forecast Follows Investment Plan, (Mexico Infrastructure, FT Special Report), Financial Times, June 28.
Thomson, A. (2013e). Aztec Tiger Begins to Sharpen Its Claws, (Mexico Infrastructure, FT Special Report), Financial Times, June 28.
United Nations. (1998). Preliminary Overview of the Economies of Latin America and the Caribbean. Santiago, Chile: CEPAL.
United Nations. (2013). Preliminary Overview of the Economies of Latin America and the Caribbean. Santiago, Chile: CEPAL.

United Nations. (2014). Preliminary Overview of the Economies of Latin America and the Caribbean. Santiago, Chile: CEPAL.
United Nations Development Program (UNDP).(2014).http://hdr.undp.org/en/content/table-2-human-development-index-trends-1980-2013.
United Nations Office on Drugs and Crime. (2010). http://www.unodc.org/documents/wdr/WDR_2010/World_Drug_Report_2010_lo-res.pdf
United Nations Office on Drugs and Crime. (2011). http://www.unodc.org/documents/congress/background-information/Crime_Statistics/Global_Study_on_Homicide_2011.pdf
Vlasic, B. (2015). Wariness as Auto Industry Eyes Mexico for Growth, The New York Times, July 23, 2015.
Wainright, T. (2012). Going Up in the World, Special Report: Mexico, The Economist, November 24.
Webber, J. (2013). Peña Nieto Faces Battle to Reverse GDP Slide, Financial Times, September 30.
Webber, J. and J.P. Rathbone. (2014). Back to Black: Energy, Financial Times, June 25.
Webber, J. (2014a). Peña Nieto Pushes On With Change Despite Skepticism, Financial Times, September 3.
Webber, J. (2014b). Rapid Returns Required From the Reform, (Mexico Energy: Special Report), Financial Times, November 12.
Webber, J. (2015a). Mexico's President Risks Losing His Political Touch, Financial Times, March 3.
Webber, J. (2015b). Location and Young Workforce Prove Attractive, Modern Mexico (FT Special Report), Financial Times, March 4.
Webber, J. (2015c). Mexico Changes Tack as Public Loses Patience with Greasing the Wheels of Bureaucracy, Financial Times, May 6.
Webber, J. (2015d). Poppy Farming Proves a Hard Habit to Break, Financial Times, May 30.
Webber, J. (2015e). Mexico's Super-Rich Attract Attention Buy Not Always the Most Positive Kind, FT.COM/WEALTH, June 26.
Webber, J. (2015f). Mexican Leader Battles Teacher's Union, Financial Times, July 23.
Webber, J. (2015g). Innovator Was Told to "Forget Silicon Valley": The MINT Economies, Financial Times, September 22.
Webber, J. (2015h). Consumer Spending Races Ahead as Wider Growth Proves Elusive, Financial Times, October 13.
Williamson, J. (1994). The Political Economy of Policy Reform, Washington, D.C.: Institute for International Economics.
Williamson, J. (2003). From Reform Agenda to Damaged Brand Name, Finance and Development, September, 10-13.
World Bank. (1991). World Development Report, 1991, New York: Oxford University Press.
World Bank. (1997). World Development Report, 1997, New York: Oxford University Press.
World Bank. (2005). Economic Growth in the 1990s: Learning from a Decade of Reform, Washington, D.C.

WEBSITES CONSULTED

www.eia.gov
http://www.githy.com/?action=page&id=1575
www.colonfreetradezone.com
http://www.oecd.org/pisa/keyfindings/pisa-2012-results-overview.pdf
www.oecd.org/tax/transparency/
http://unstats.un.org/unsd/methods/m49/m49regin.htm)
http://info.worldbank.org/governance/wgi/index.aspx#countryReports
http://data.worldbank.org/indicator/SI.POV.NAHC/countries/PA?display=graph
http://en.wikipedia.org/wiki/Mexico

http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
http://info.worldbank.org/governance/wgi/index.aspx#reports).
http://data.worldbank.org/about/country-and-lending-groups
http://www1.worldbank.org/finance/assets/images/Crisis_Man.pdf
http://www.bbc.com/news/world-latin-america-28558480
http://www.ey.com/GL/en/Services/Tax/International-Tax/Alert--Mexico-s-tax-reform-is-signed-by-president-and-published
www.doingbusiness.org
https://stats.oecd.org/Index.aspx?DataSetCode=REV
http://www.oecd.org/mexico/economic-survey-mexico.htm
http://databank.worldbank.org/data/reports.aspx?source=2&country=MEX&series=&period=

ACKNOWLEDGMENT

I thank Claudia Binaghi for her great help in creating the tables that appear in the paper and the attractive PowerPoint presentation slides used at the Conference. I also thank my colleague at Montclair State University, Luis San Vicente Portes, for his helpful suggestions on an earlier draft of the paper.

I am grateful to the Department of Economics and Finance and the School of Business at Montclair State University, who jointly provided the required funding to enable me to present the paper at the Seventeenth Annual Conference of the National Business and Economics Society in March 2016 in Cabo San Lucas, Mexico.