MEXICO

Mexico’s economic freedom score is 64.7, making its economy the 66th freest in the 2019 Index. Its overall score has decreased by 0.1 point, with declines in judicial effectiveness, trade freedom, monetary freedom, and labor freedom overwhelming a significantly higher score for fiscal health. Mexico is ranked 12th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

Mexico’s $2 trillion GDP reflects the benefits of regional trade, so the U.S.–Mexico–Canada Agreement signed in 2018 is vital. The new government is likely to continue reforms in the energy, financial, fiscal, and telecommunications sectors with the long-term aim of improving competitiveness and economic growth across the economy. Growth in 2019 should be aided by higher oil prices, but the economy is still constrained by low productivity, a still-large informal sector that employs over half of the workforce, weak rule of law, and corruption.

BACKGROUND: The Institutional Revolutionary Party (PRI) ruled Mexico for 70 years until its defeat by the center-right National Action Party in 2000. Although the PRI regained the presidency in 2012 under former President Enrique Peña Nieto, it was greatly weakened in the July 2018 landslide victory of populist Andrés Manuel López Obrador, whose MORENA party also won a substantial majority in Congress. López Obrador has promised to fight corruption. His post-election support of a renewed North American Free Trade Agreement signaled a more pragmatic approach to governance and a welcoming attitude toward badly needed foreign investment, but López Obrador must prevail over Mexico’s powerful drug cartels to reverse surging homicide rates.
Property rights are protected, but the government has made the property registration process more expensive. The judicial system is weak. Frequent solicitation of bribes by bureaucrats and officials, widespread impunity, and the high incidence of criminal extortion undermine the rule of law. Corruption is pervasive and fed by billions of narco-dollars. More than 100 politicians were murdered in 2018.

The top individual income tax rate is 35 percent, and the corporate tax rate is 30 percent. Other taxes include a value-added tax. The overall tax burden equals 17.2 percent of total domestic income. Over the past three years, government spending has amounted to 26.9 percent of the country’s output (GDP), and budget deficits have averaged 2.6 percent of GDP. Public debt is equivalent to 54.2 percent of GDP.

There is no minimum capital requirement for launching a business, but completing necessary licensing requirements remains costly. Rigid labor laws that make the hiring and dismissing of employees costly provide an incentive for small companies to operate outside of the formal sector. The government began the liberalization of its energy market by deregulating gasoline prices in 2017.

The combined value of exports and imports is equal to 77.6 percent of GDP. The average applied tariff rate is 4.3 percent. As of June 30, 2018, according to the WTO, Mexico had 236 nontariff measures in force. The banking system remains relatively well capitalized, and foreign participation has grown. About 38 percent of adult Mexicans have access to an account with a formal banking institution.