

equally difficult for most people to understand how it has already risen as high as it has.

There are several things working in Mexico's favor economically. The first is oil. Mexico has been a major oil producer and exporter over the last century. For many, that is an argument against Mexico becoming a major power. Oil exports frequently undermine the ability—or appetite—of a nation to develop other industries. It's therefore important to understand one other fact about Mexico: despite the surge in global oil prices since 2003, its energy sector actually represents a declining portion of Mexico's overall economy. Oil constituted about 60 percent of Mexico's exports in 1980, but by 2000 it was only about 7 percent. Mexico has oil reserves, but it doesn't depend on oil exports to grow.

The second factor in Mexico's economic growth has to do with its proximity to the United States—the same thing that will later pose a geopolitical challenge. Mexico—with or without NAFTA—will be able to export efficiently into the world's largest and most dynamic market. While NAFTA cut the cost of exports and increased the institutional efficiency of the relationship, the fundamental reality is that Mexico's proximity to the United States has always given it an economic advantage, despite the geopolitical disadvantage that goes with it.

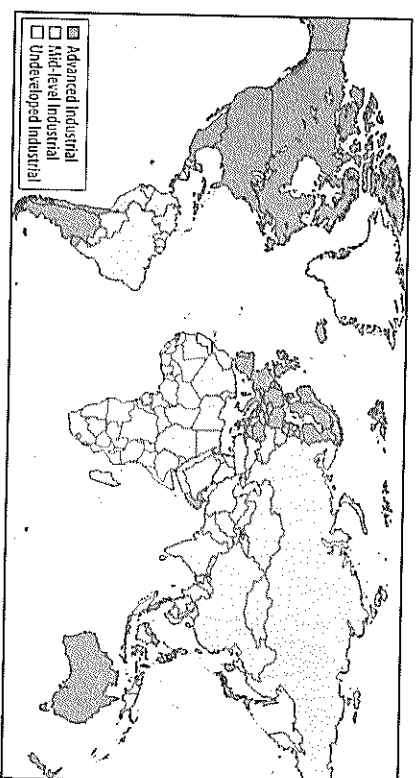
Third, there are massive amounts of cash flowing back to Mexico from the United States in the form of remittances from legal and illegal immigrants. Remittances to Mexico have surged and are now its second-largest source of foreign income. In most countries, foreign investment is the primary means for developing the economy. In Mexico, investment by foreigners is being matched by foreign remittances. This remittance system has two effects. It leverages other sources of investment when it is banked. And it serves as a social safety net for the lower classes, to whom most remittances flow.

The inflow of money into Mexico has meant a growth in technologically based industry and services. Services now account for 70 percent of Mexico's GDP, and agriculture for only about 4 percent. The rest is made up of industry, oil, and mining. The proportion of services centered around tourism is relatively high, but the mix as a whole is not typical of a developing country.

There is an interesting measure, created by the United Nations, called the human development index (HDI), which charts global standards of living, including factors like life expectancy and literacy rates. The HDI divides the world into three classes. On the map that follows, black represents the advanced industrial world, medium gray indicates the middle-tier and developed countries, and light gray shows the developing world. As the map shows, Mexico already ranks with Europe and the United States on the human development scale. That doesn't mean it is the equal of the United States, but it does mean that Mexico cannot simply be viewed as a developing country.

When we drill deeper into the HDI, we see something else interesting about Mexico. Mexico as a whole has an index of 0.70, which puts it in the same class as the United States or Europe. But there are enormous regional inequalities within Mexico. The darker areas on the map below have rankings equal to some European countries, while the lightest areas are the equivalent of poorer, North African countries.

This tremendous inequality is exactly what you would expect to see in a country in the process of rapid development. Consider the descriptions of Europe written by Charles Dickens or Victor Hugo. They captured the essence of nineteenth-century Europe—tremendous growth amid inten-



Levels of Economic and Social Development