

## MEXICO

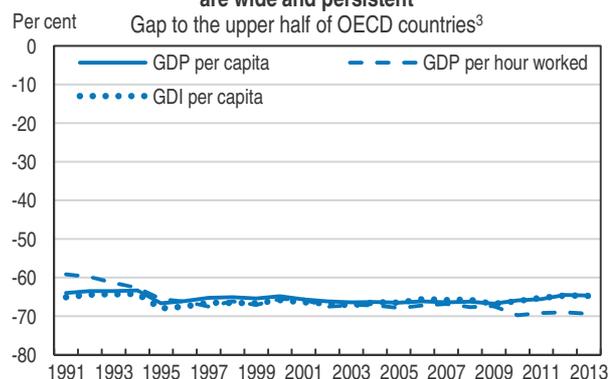
- The persistently wide gap in GDP per capita relative to the upper half of the OECD is driven primarily by a low level and growth rate of labour productivity.
- Major policy reforms have been introduced in most priority areas: employment protection on regular contracts was substantially eased; a major energy reform was passed, allowing for risk sharing with the private sector; wireless, fixed-line, satellite, media, insurance and leasing sectors have been opened more substantially to foreign direct investment; and new telecom regulators, charged with enforcing competition, have been established.
- Raising educational achievement and reducing job informality is needed to boost productivity and improve labour market performance. Reducing barriers to foreign direct investment and lowering entry barriers in network industries would also help to stimulate investment and further strengthen competition. More broadly, legal institutions need to be improved to provide a more supportive environment for businesses.
- In addition to boosting productivity, improving educational achievement would foster human capital accumulation and reduce the degree of earnings inequality. Reforms to promote formal employment could also help to improve equity.

### Growth performance indicators

**A. Average annual trend growth rates**  
Per cent

	2003-08	2008-13
Potential GDP per capita	0.5	0.5
Potential labour utilisation	0.2	0.4
<i>of which:</i> Labour force participation rate	0.0	0.0
Employment rate <sup>1</sup>	-0.2	-0.1
Trend employment coefficient <sup>2</sup>	0.4	0.5
Potential labour productivity	0.2	0.1
<i>of which:</i> Capital deepening	1.1	0.8
Labour efficiency	-1.7	-1.4
Human capital	0.8	0.7

**B. Gaps in GDP per capita and productivity are wide and persistent**  
Gap to the upper half of OECD countries<sup>3</sup>



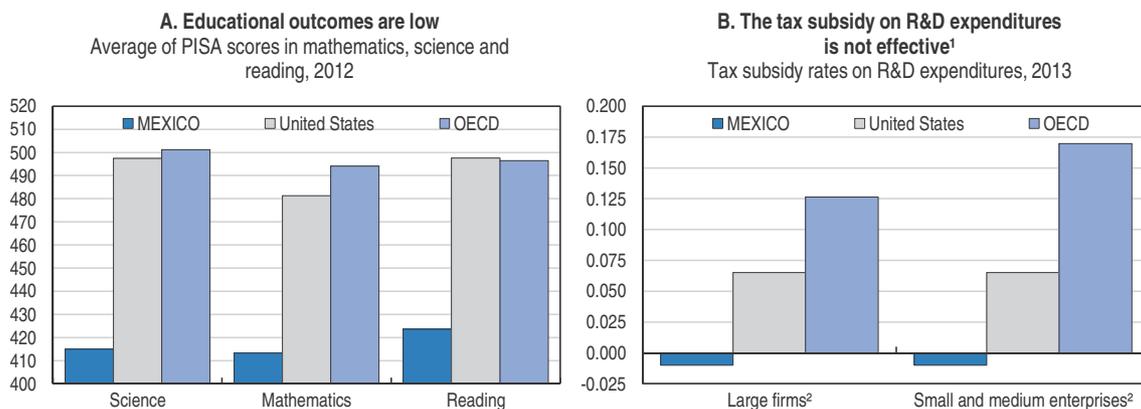
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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## Policy indicators



1. The tax subsidy rate is calculated as 1 minus the B-index, the latter being a measure of the before-tax income needed to break even on USD 1 of R&D outlays.

2. Average of profitable and loss-making firms.

Source: Panel A: OECD (2014), PISA 2012 Results: *What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>. Panel B: OECD (2013), *OECD Science, Technology and Industry Scoreboard 2013: Innovation for Growth*, OECD Publishing, Paris, [http://dx.doi.org/10.1787/sti\\_scoreboard-2013-en](http://dx.doi.org/10.1787/sti_scoreboard-2013-en).

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## Going for Growth 2015 priorities

**Priorities supported by indicators**

**Raise education achievement.** Low educational enrolment and quality limit productivity gains and contribute to high inequality.

**Actions taken:** National standards for primary and secondary teacher performance have been introduced in 2013, including an evaluation system and professionalisation of the training and selection of school principals. The first round of teacher evaluations was carried out in every state in mid-2014.

**Recommendations:** Fully implement the new national standards for primary and secondary teacher performance, the new teacher evaluation system, and fully professionalise the training and selection of principals. Provide schools with reliable financing through a more efficient allocation of resources.

**\*Strengthen innovation policies.\*<sup>1</sup>** Lack of adequate R&D and high-tech investment limits absorptive capacity, and contributes to the decline in productivity.

**Recommendations:** Promote early-stage financing and industry co-operation with research institutes by strengthening industry networks, particularly through the facilitation of clusters.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an “\*”.

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**Reduce barriers to foreign direct investment.** Barriers to foreign direct investment (FDI) in services and infrastructure are among the most stringent in the OECD, harming trade, investment and technological upgrading.

**Actions taken:** The wireless, fixed-line, satellite, media, insurance and leasing sectors have been opened more substantially to FDI in 2014. Secondary legislation to implement the 2013 reform of the energy sector has been approved, allowing for risk sharing with the private (including foreign) sector.

**Recommendations:** Open up transport and banking to FDI; further reduce foreign investment restrictions in telecom-related sectors. To ensure effective implementation of the energy reform, establish a regulatory framework that provides an attractive and competitive market for private investors.

**Other key priorities**

**Improve the rule of law.** Weaknesses in the legal system hurt the efficacy of contracts and the security of property rights, reducing firm size and investment.

**Actions taken:** The unified criminal procedural code was adopted in 2014. Most states have now begun to implement judicial procedural reforms that make use of oral trials. Fast-track courts for competition cases were set up in 2013 and are now in use, with nation-wide jurisdiction.

**Recommendations:** Improve the accountability and professionalism of the judicial sector. Further promote the full state-level implementation of the 2008 constitutional amendments that revamped the framework for penal justice, and the extension of these to civil and commercial cases that began in 2011.

**Reduce barriers to entry and competition.** Anti-competitive product market regulation hampers productivity and formal employment. Costly registration procedures and lack of contestability in key network sectors act as a drag on growth.

**Actions taken:** New sectoral regulators were introduced in the telecoms and energy sectors in 2013 and became operational in 2014; a new competition law was also passed in 2013 that strengthens the powers of the Competition Commission.

**Recommendations:** Further reduce barriers to entry for start-ups, especially at the state and local levels, thereby helping boost formal employment.

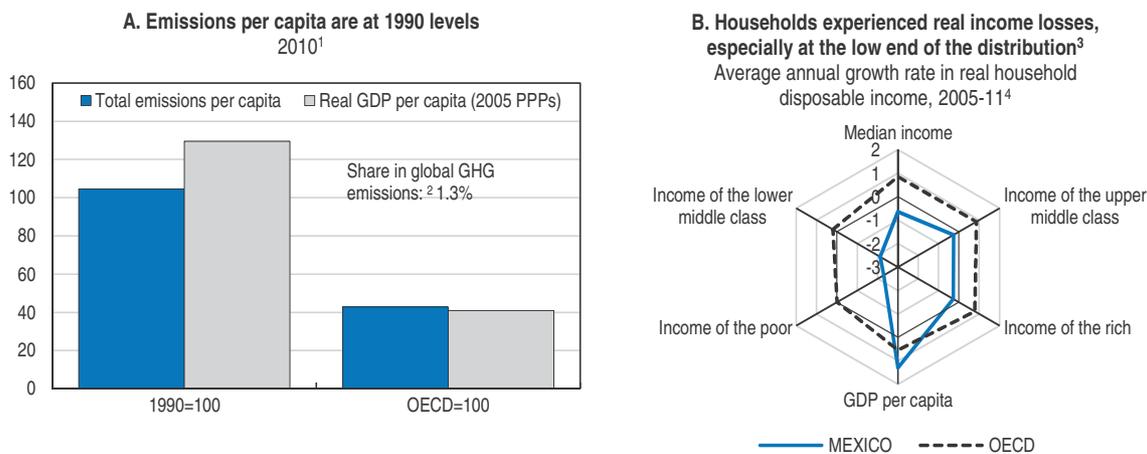
**Reform areas no longer considered a priority in Going for Growth**

**Reduce job protection on formal contracts.** In order to reduce informality, it was recommended to address institutional rigidities in the labour market by easing the stringency of job protection.

**Actions taken:** The labour reform introduced in 2012 eases the stringency of job protection for formal employment and this has the potential to reduce informality. New contracts allowing for more flexibility in wage adjustments came into use during 2013, also reducing judicial uncertainty.

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## Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO<sub>2</sub> equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-12 for Mexico.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and United Nations Framework Convention on Climate Change (UNFCCC) Database. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink  <http://dx.doi.org/10.1787/888933178743>