

MEXICO

Mexico has one of the largest GDP per capita gaps with respect to the richest 50% of OECD countries, which is almost entirely due to a persistent gap in labour productivity. Mexico is bringing its competition law in line with international best practice, but further actions in the following areas are needed to address the productivity shortfall.

Priorities supported by indicators

Raise achievement in primary and secondary education

Scores on international student tests (PISA) are weaker than in most OECD countries, holding back productivity growth and slowing the adoption of new technologies.

Actions taken: As part of the framework of the Alliance for Quality Education between the government and the main teachers' union, spending on school infrastructure has increased and around 20 000 schools have been renovated. In 2010 a bonus is being paid out to schools achieving high scores on the national student test.

Recommendations: Provide better support to schools to focus on improving learning outcomes, and hold directors and teachers accountable for results. Set clear national standards of teaching practice and student performance, aligned with a national curriculum. Improve initial teacher preparation, professionalise recruitment, selection and evaluation of teachers, and link teachers' professional development to schools' needs. Strengthen school leadership and management and build capacity to support school autonomy and social participation.

Reduce barriers to firm entry

Regulatory barriers to entry in key network industries (*e.g.* telecommunications and electricity) and burdensome regulations for start-ups hamper competition and productivity growth.

Actions taken: Assisted by the OECD, the government launched in 2007 a process for strengthening competitiveness in Mexico by promoting regulatory and competition policy reform. One outcome is the launch of an online one-stop shop that reduces the time to start a new business significantly. Authorities have initiated phone number portability and given permits to commercialise or resell mobile phone services. In 2010 the government completed two competitive bidding processes in telecommunications (radio-electric spectrum and dark optical fibre network).

Recommendations: Increase the effectiveness and enforceability of competition-enhancing access regulations in network industries. Remove legal obstacles to private investment in the electricity sector and fixed line telephony. Reduce regulatory "red tape" for start-ups.

Reduce barriers to foreign ownership

Restrictions on FDI still in place in some sectors curb competition and innovation.

Actions taken: A new law reducing ownership restrictions in telecommunications has been approved in the lower chamber of Congress. Approval in the upper chamber is pending.

Recommendations: Ease restrictions on FDI in services and infrastructure, especially in the electricity sector and fixed line telephony.

Other key priorities

Improve the rule of law

A lack of legal certainty holds back competition and investment.

Actions taken: A reform bill that strengthens competition law has passed the lower chamber of Congress. Approval in the upper chamber is pending. A review of the existing stock of regulations was launched by the President in early 2010 to increase regulatory certainty, among other objectives.

Recommendations: Improve the rule of law by clarifying property rights and ensuring more effective and predictable law enforcement. In the area of competition law, enhance the investigative powers of the competition commission (the CFC), increase the level of fines for collusion, and reduce the length of judicial procedures by reforming the appeals system (*amparos*).

Reform the state-owned oil company

Weak incentives for efficient operation and investment have contributed to a fall in oil production.

Actions taken: A comprehensive energy sector reform was implemented in 2008-09, which establishes a statutory increase in PEMEX independence and accountability, and allows cash incentives for contractors that meet pre-specified performance objectives. However, profits and property rights on hydrocarbons will not be shared. PEMEX's investment will be excluded from the fiscal balance rule.

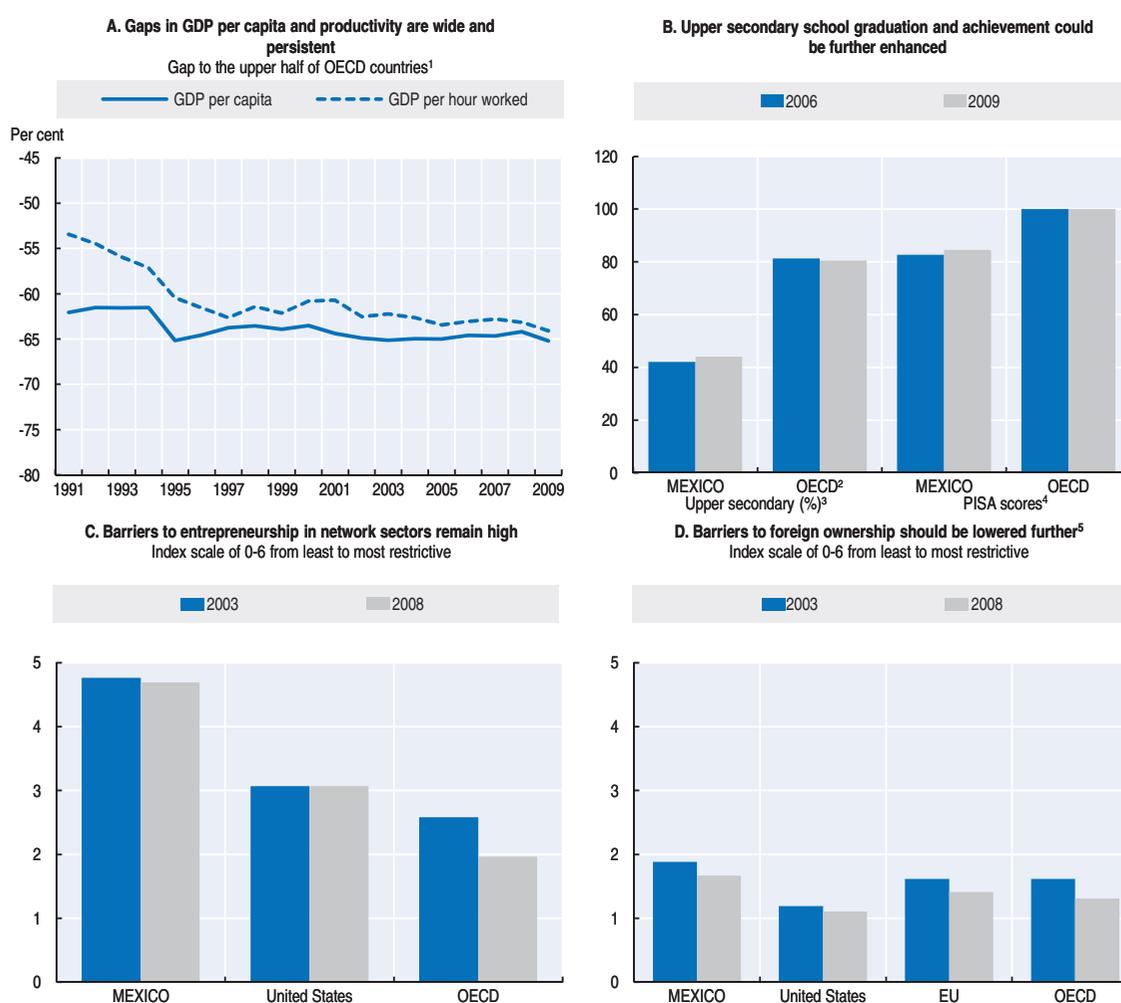
Recommendations: Improve the governance of PEMEX by strengthening accountability for efficient operation. Continue facilitating risk and profit sharing with other companies to ease access to technologies. Lift production and investment constraints in the sector.

MEXICO

Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	1.4	1.5	1.3
Labour utilisation	0.7	0.7	0.7
of which: Employment rate	0.8	0.8	0.8
Average hours	-0.1	0.0	-0.1
Labour productivity	0.7	0.8	0.6
of which: Capital intensity
Multifactor productivity

Source: Estimates based on OECD (2010), *OECD Economic Outlook No. 88: Statistics and Projections Database*.

1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Average of OECD countries excluding Australia, Austria, Belgium, Estonia, France and the Netherlands.
3. First-time graduation rates for single year of age at upper secondary level, years 2006 and 2008.
4. Average score of student performance in mathematics, science and reading. Index OECD = 100.
5. The FDI regulation index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook No. 88 Databases*; Charts B: OECD (2010), *Education at a Glance* and OECD, *PISA 2009 Database*; Charts C and D: OECD, *Product Market Regulation Database*.StatLink <http://dx.doi.org/10.1787/888932374084>