

## MEXICO

*Economic growth has been too slow to allow substantial convergence in living standards with the best performing OECD countries. The low level of labour productivity is the main source of the income gap.*

### Priorities supported by indicators

#### **Raise achievement in primary and secondary education**

Mexican children spend few years in school and student performance is among the weakest in the OECD, holding back productivity growth and slowing the adoption of new technologies.

**Actions taken:** On-going efforts are aimed at increasing the participation in upper-secondary education of students from low-income families. Modest steps have been taken to strengthen the quality of teaching. Some states have taken initiatives to improve the quality, efficiency and equity of schooling.

**Recommendations:** Re-allocate education resources on secondary education and non-wage spending. Raise the cost-efficiency of spending by further modernising curricula and by incorporating the results of evaluations into rewards/sanctions for teachers and schools, thereby enhancing their accountability.

#### **Reduce barriers to entry in network industries**

There are explicit barriers to entry in the electricity sector, and in oil and gas extraction. Effective competition is lacking in the telecommunications sector because of problems in applying the current law and a lack of progress in passing competition-enhancing legislation.

**Actions taken:** The 2006 reform to the Competition Law clarifies the Federal Competition Commission (CFC) procedures, streamlines merger notification, strengthens the CFC's powers and enhances the importance of its opinions for government action in regulated sectors. However, changes to the media law allow the two incumbents to strengthen their control of the spectrum available for broadcast transmissions.

**Recommendations:** Remove legal obstacles to private investment in the electricity, and oil and gas sectors. Review the 2006 amendments to the radio and television law to ensure that it strengthens competition in the media sector and does not, in practice, give further benefits to the incumbents at the expense of new entrants.

#### **Reduce barriers to foreign ownership**

Restrictions on foreign investment are still in place in many sectors. These hold back competition and impede technological transfer.

**Actions taken:** No action taken.

**Recommendations:** Ease restrictions on foreign direct investment (FDI), especially in the electricity sector and fixed-line telephony, as well as in some professions, construction and transportation.

### Other key priorities

- Simplify the tax system and broaden the VAT base to raise labour productivity by reducing distortions and by facilitating tax administration.
- Improve the “rule of law” with more transparency, clearer property rights, and more predictable law enforcement, with a view to facilitating business and enhancing FDI inflows.