

Mexico

Mexico's GDP per capita is less than half the OECD average and the gap has barely narrowed over the past two decades. Productivity performance has been weak throughout the 2000s and the employment rate is among the lowest in the OECD. On the other hand, hours worked are the longest in the OECD. Nevertheless, economic growth has been uneven, with increasing disparities between a productive, modern economy in the north and centre of the country, and a lower-productivity traditional economy in the south. A large share of households has hardly benefitted from this growth, highlighting the importance of the inclusiveness challenge in Mexico. Productivity growth has picked up in sectors that have been benefitted from structural reforms, notably energy, finance and telecommunications. Additional reforms, already implemented, such as labour and education, aim to address the job informality challenge and raise the quality of education.

The gap in income per capita vis-a-vis the OECD average is sizeable, and convergence has been slow

MEXICO	Pre-crisis 2003-08	Post-crisis 2011-16
<i>Levels</i>		
GDP per capita**	15285 (33712)*	16265 (35776)*
GDP per hour worked**	18.6 (41.6)*	18.4 (45.6)*
Employment rate, %	60.2 (66.4)*	60.7 (66.8)*
<i>Average annual growth rate</i>		
GDP per capita	1.6 (2.8)*	1.7 (1.4)*
GDP per hour worked	0.2 (2.0)*	0.8 (1.1)*
Employment	2.9 (1.6)*	1.7 (1.0)*
Median household disposable income***		-1.8 (1.4)*

Note: * Unweighted OECD average in brackets.

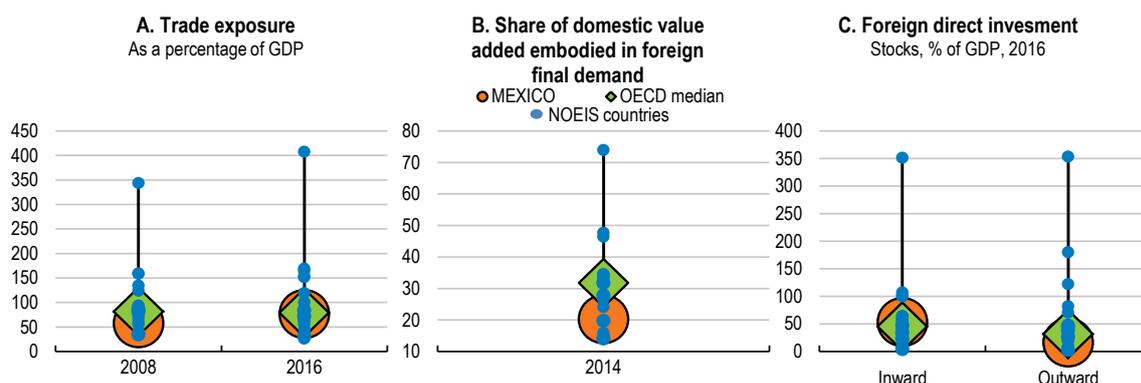
** USD, constant 2010 PPPs and constant prices.

*** Data refer to 2011-15 and are deflated by the consumer price index. 2012-14 for Mexico.

Source: OECD, National Accounts, Productivity, Labour Force Statistics and Income Distribution Databases.

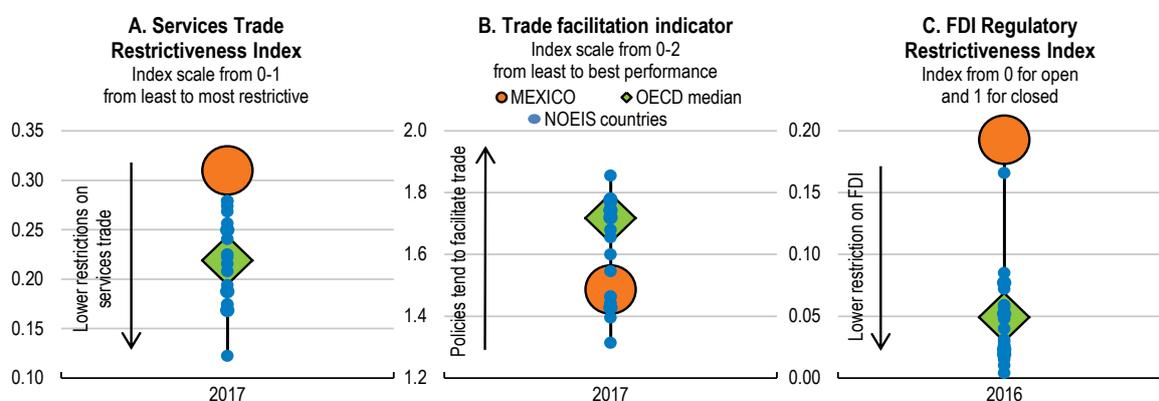
Mexico’s exposure to trade and FDI are on the higher side given its size. Based on the share of foreign value added in gross exports, Mexico is well integrated into global value chains. However, it remains below OECD and peer countries in terms of the share of Mexican value added embodied in foreign exports and final demand. The contribution of services to trade and more generally to the economy is also low by OECD standards. The services content of Mexico’s total exports was 40% in 2014, the second lowest in the OECD. Mexico has signed 12 free trade agreements with 46 countries – including NAFTA – driving its integration in GVCs and transforming the country into a booming manufacturing centre and an international trade hub. Although there are still substantial obstacles to trade and investment over the past five years Mexico has implemented major reforms that allowed foreign companies to operate in previously restricted sectors, such as telecommunications and broadcasting, resulting in significant price decreases for telecommunication services. Trade restrictions on services are among the highest in the OECD, reflecting both general regulations that apply across all sectors and sector-specific rules, despite important reforms to reduce regulatory burdens. Current restrictions affect especially services and infrastructure and hence hamper the capacity of Mexico to improve its position in global value chains. Mexico also ranks scores poorly on the aggregate OECD trade facilitation index and restrictions on FDI are high by OECD standards, even though Mexico actually receives more FDI as a share of its GDP than other OECD countries.

Mexico’s exposure to trade and FDI is relatively high for a large country



Source: Panel A: OECD, [Economic Outlook Database](#) and [World Bank, World Integrated Trade Solution](#); Panel B: OECD, [TIVA Nowcast estimates Database](#); Panel C: OECD, [Foreign Direct Investment Database](#) and UNCTAD.

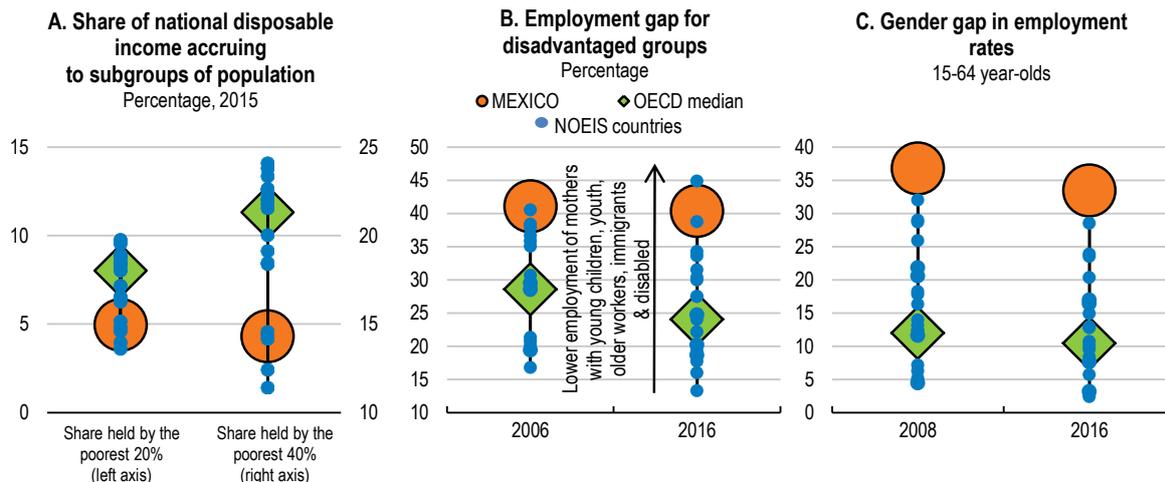
Trade and foreign investment are hampered by restrictive policies



Source: Panel A: [OECD, Services Trade Restrictiveness Index Database](#); Panel B: OECD, [OECD, Trade Facilitation Indicators Database](#); Panel C: [OECD, FDI Regulatory Restrictiveness index database](#).

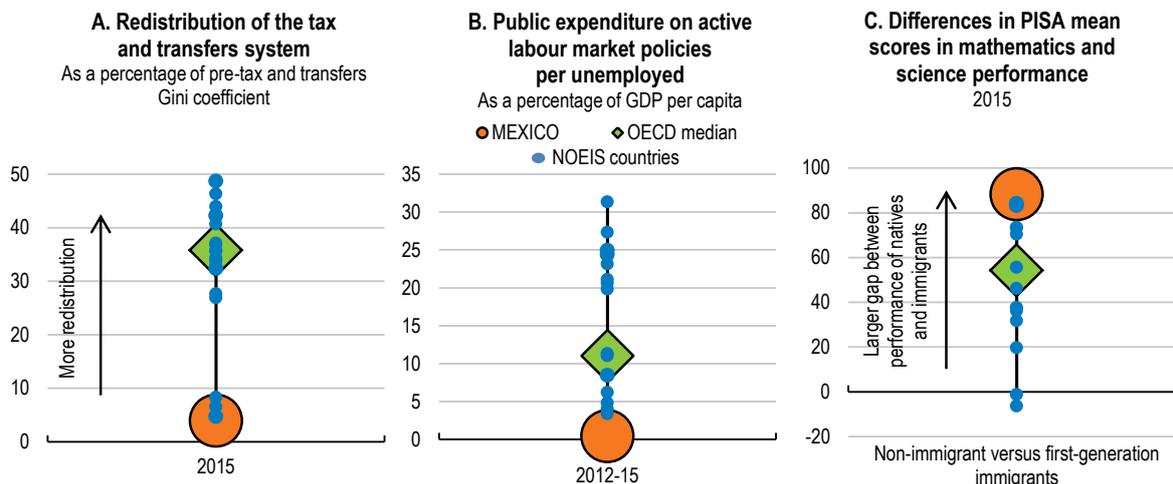
Inequality is a major challenge. The high level of inequality is reflected across various indicators including poverty, informality and income distribution. The tax and transfer system is among the least redistributive, hardly reducing income inequality. The employment performance of traditionally disadvantaged groups is poor, with some of the highest employment gaps in the OECD for youth. Moreover, while informality has declined since 2012, it remains very high by OECD standards. Mexico has very low spending on active labour market policies. The gender employment gap has narrowed somewhat but is still the second highest in the OECD. Women also earn significantly less than men. Despite improvements in recent years, Mexican students still perform much poorer than the OECD average at PISA. Moreover, students' socio-economic and indigenous backgrounds and where they live affect their performance.

Income distribution and access to employment are highly unequal



Source: Panel A: OECD, [OECD, Income Distribution Database](#) and World Bank, World Development Indicators Database; Panel B: OECD (2018), OECD Jobs Strategy Analytical Volume, forthcoming; Panel C: OECD, Labour Force Statistics Database and ILO, Key Indicators of the Labour Market.

Policies do little to support inclusiveness



Source: Panel A: OECD, [OECD, Income Distribution Database](#); Panel B: OECD, [OECD, Public expenditure and participants stocks on Labour Market Programmes](#) on Labour Market Programmes and [Economic Outlook Databases](#); Panel C: OECD, [PISA 2015 Results \(Volume I\): Excellence and Equity in Education](#), Annex B1.7 Results (tables): Immigrant background, student performance and students' attitudes towards science.

METADATA ANNEX

Economic openness

- **Trade exposure** is defined as exports and imports over GDP.
- **The share of domestic value added embodied in foreign final demand** is defined as domestic value added, from industry, meeting foreign final demand, as a percentage of industry value added. It can be considered as a measure of an industry's reliance on foreign final demand. Here, the denominator is value added adjusted to be consistent with final demand (both domestic and foreign).
- **Foreign Direct Investment stocks** are defined as the total level of direct investment at a given point in time, usually the end of a quarter or of a year. The outward FDI stock is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy. For the Netherlands, FDI stock data exclude positions to and from resident Special Purpose Entities (SPEs); SPEs are entities whose role is to facilitate the internal financing of the MNE but that have little or no physical presence in an economy. Excluding such entities from the FDI statistics provides a better measure of the FDI of the country that is having a real impact on its economy.

Trade and FDI

- **The Services Trade Restrictiveness Index (STRI)** identifies which policy measures restrict trade. It provides policy makers information and measurement tools to improve domestic policy environment, negotiate international agreements and open up international trade in services. It can also help governments identify best practice and then focus their domestic reform efforts on priority sectors and measures. The index presented is a geometric average of all sectors and takes value from 0 to 1, where 0 is completely open and 1 is completely closed.
Data are missing for Argentina and Peru.
- **Trade facilitation indicators (TFIs)** identify areas for action and enable the potential impact of reforms to be assessed and help governments to improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade. The index takes values from 0-2 (least to best performance). The index presented is a simple average over 11 dimensions of the TFI.
Data are missing for Iceland.
- **The FDI regulatory Restrictiveness Index** is gauging the restrictiveness of a country's foreign direct investment rules by looking at four main types of restrictions: foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel and operational restrictions. Implementation issues are not addressed and factors such as the degree of transparency or discretion in granting approvals are not taken into account. The index takes values between 0 for open and 1 for closed.

Inequality

- **The share of national disposable income held by the poorest 20% and 40%** is defined as the share of income that accrues to subgroups of population indicated by deciles or quintiles.
For the poorest 20%, data refer to 2014 for Argentina, Germany, Hungary, Luxembourg; 2012 for Japan.
- **The employment gap for disadvantaged groups** is expressed as a percentage of the benchmark group (prime-age male workers). Disadvantaged groups include mothers with young children, youth (15-19 years old) excluding those in full-time education or training, older workers (55-64 years old), non-natives and people with disabilities.
Data are missing for Colombia and Costa Rica in 2006 and for Peru in 2006 and 2016.
- **The gender gap in employment rates** is defined as the difference between employment to population ratios of men and women aged 15-64.
Data refer to 2010 and 2014 for Argentina.

Redistribution, activation and inequality of opportunities

- **The redistribution of the tax and transfers system** is measured as the difference between pre-tax and transfer and post-tax and transfers Gini coefficients, relative to the pre-tax and transfer Gini coefficient. The Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The coefficient takes the value of 0 in the case of perfect equality and 100 for perfect inequality.
Data refer to 2014 for Germany, Hungary, Luxembourg and Peru; 2012 for Japan. Data are missing for Argentina and Colombia.
- **Public expenditure on active labour market policies per unemployed** are measured by all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. It includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled. Data are expressed as a percentage of GDP per capita. Original data can be accessed under: <http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP>. *Data are missing for Argentina, Colombia, Costa Rica and Peru. For Canada, data include federal expenditures on programmes implemented by the provinces and territories, but do not generally include the provinces' and territories' additional or complementary funding of these programmes.*
- **Differences in PISA mean scores (average of mathematics and science) between natives and first and second generations of immigrants.** PISA assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies
Data are missing for Japan, Poland and Peru. For Argentina, data refer to the region of the capital city of Buenos Aires.
- **The variance of educational achievement** is measured as the total variance in PISA scores in reading, mathematics and science, compared to the OECD (OECD=100). The Programme for International Student Assessment (PISA) assesses the extent to which 15-year-old students, near the end of their compulsory education, have acquired key knowledge and skills that are essential for full participation in modern societies. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis.
For France, average of PISA scores in mathematics and reading only in 2015. For Argentina, data refer to the region of the capital city of Buenos Aires.