

A Survey of Conditions for Growth in Mexico

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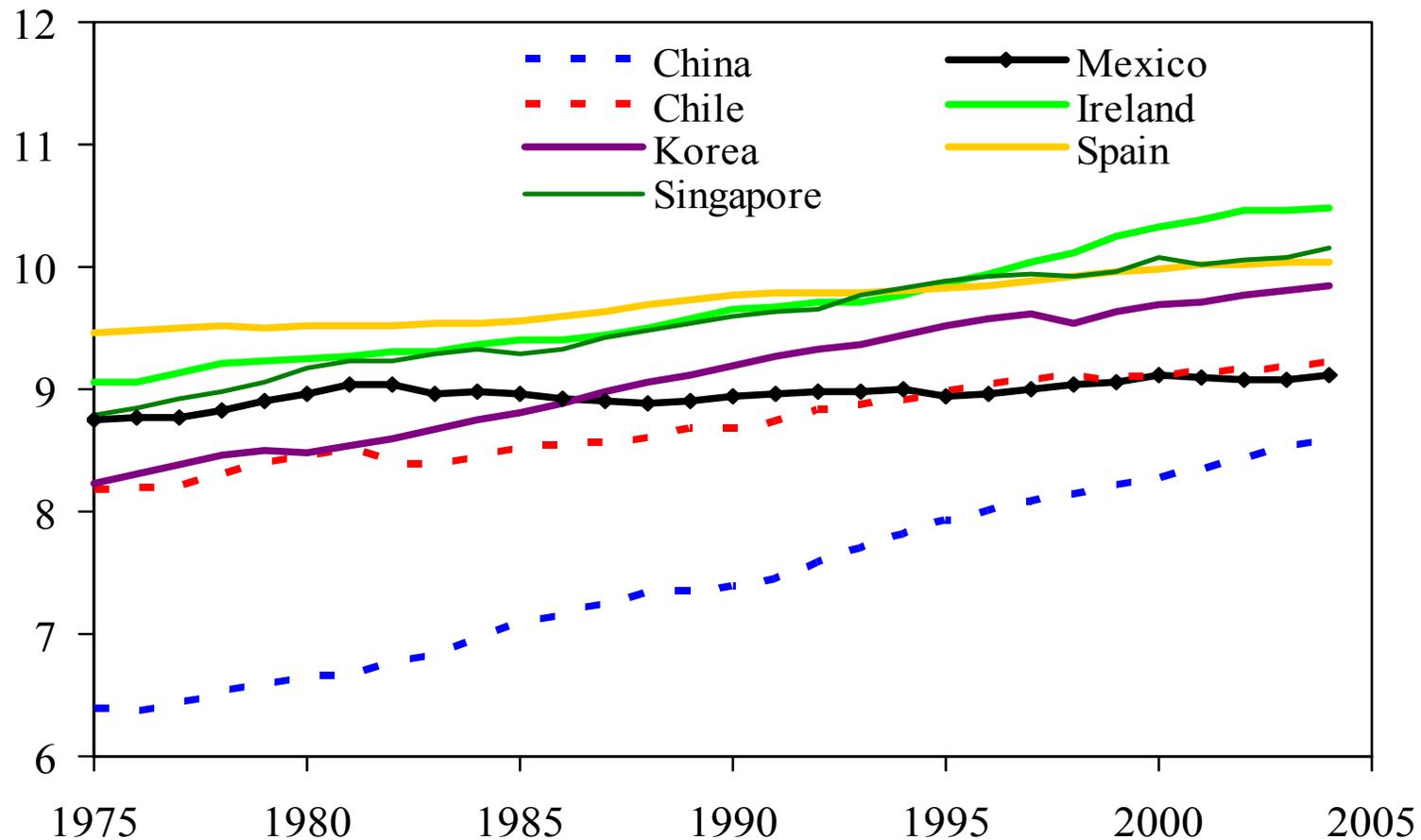
WHD Growth Seminar

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Slow economic convergence, seen in low productivity growth

Per capita GDP on PPP terms 1975-2005

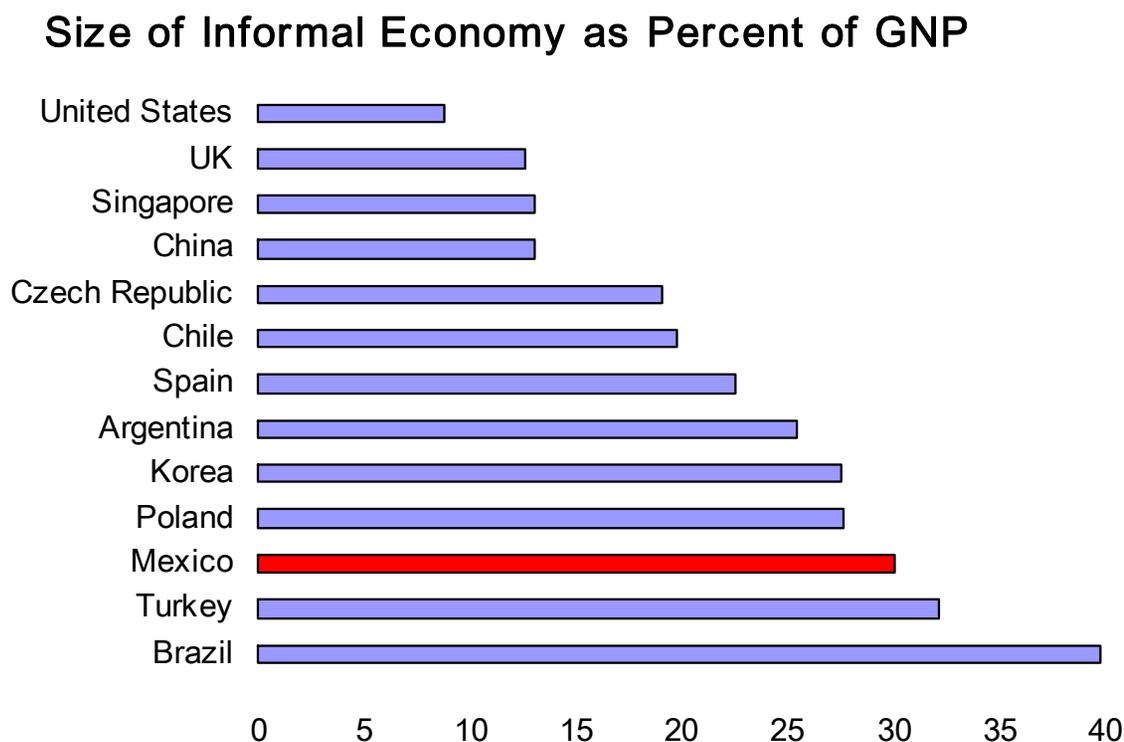


Why poor growth?

- Macro and financial stability established but their full effects require more time
- Two broad categories of structural impediments: limits on competition and inadequate public goods key for business development
- Also, new shocks (China competition) make structural reforms more necessary

Labor markets: rigid regulations feed informality

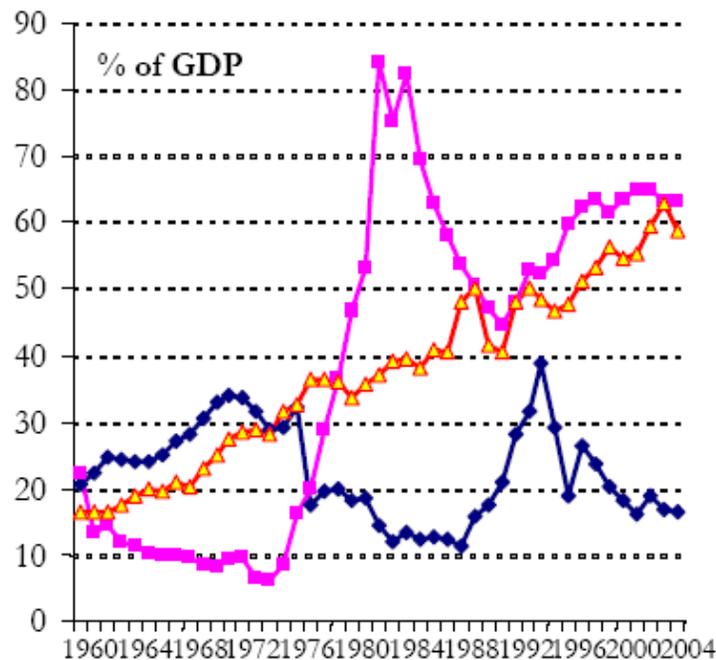
- High severance payments
- Nonwage costs > 47% of payroll
- Restrictions on temporary labor
- Considerable discretion of labor arbitration bodies



Source: World Bank (2006)

Access to financing: a matter of time... but also of competition and creditors rights

Evolution of Domestic Credit to the Private Sector (1960–2004)



—◆— Mexico —■— Chile —▲— Middle Income

	MEX *	MEX **	CHI	KOR	OE CD
Creditors' legal rights	2	2	4	6	6.3
Investors' protection	3.7	6	8	5.3	6.0
Cost of enforcing contract***	20	20	16.3	5.5	11.2

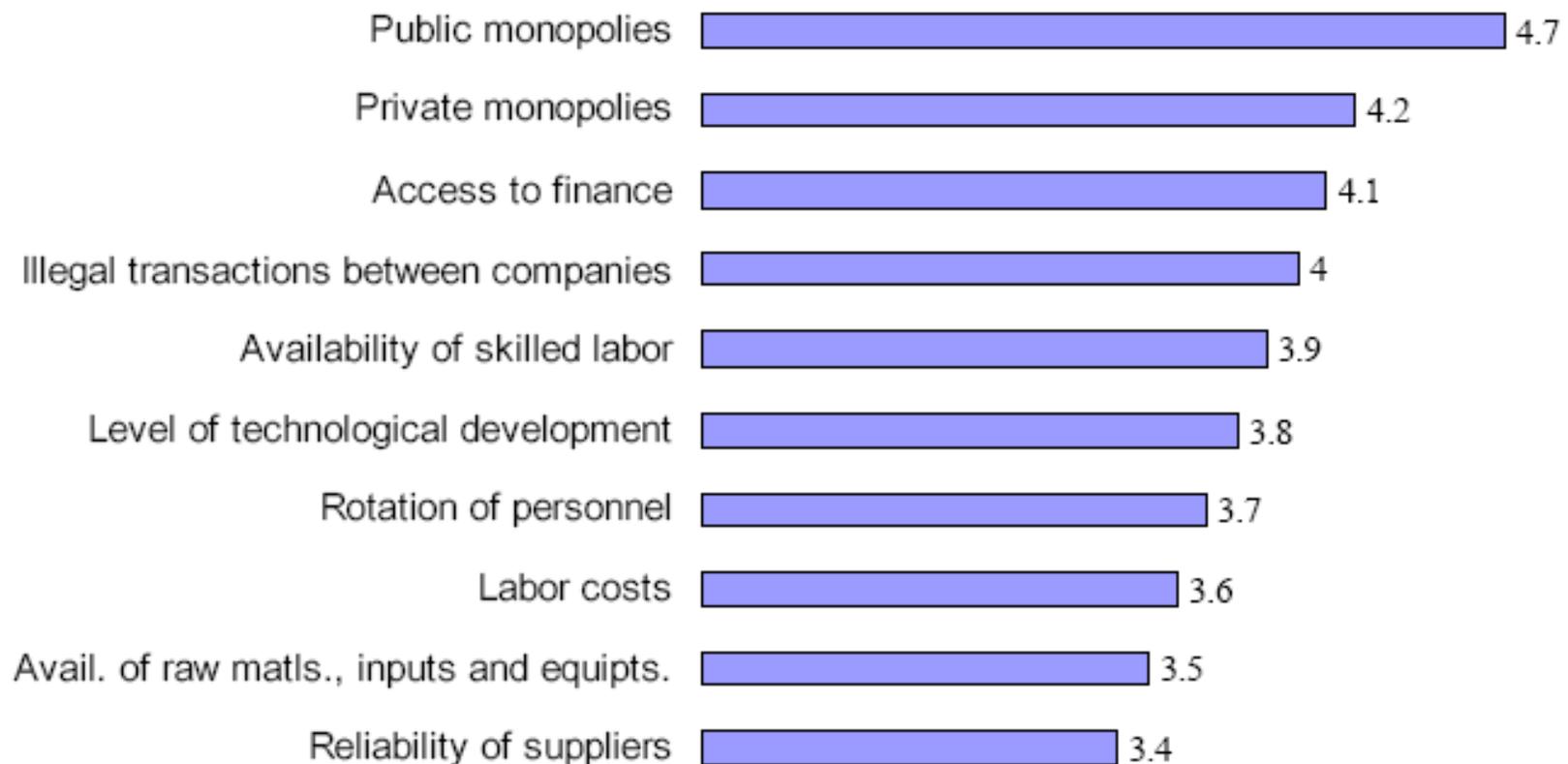
*: before new stock-market law

** : after new stock-market law

***: in percent of debt

Competition in product markets: the number one complaint

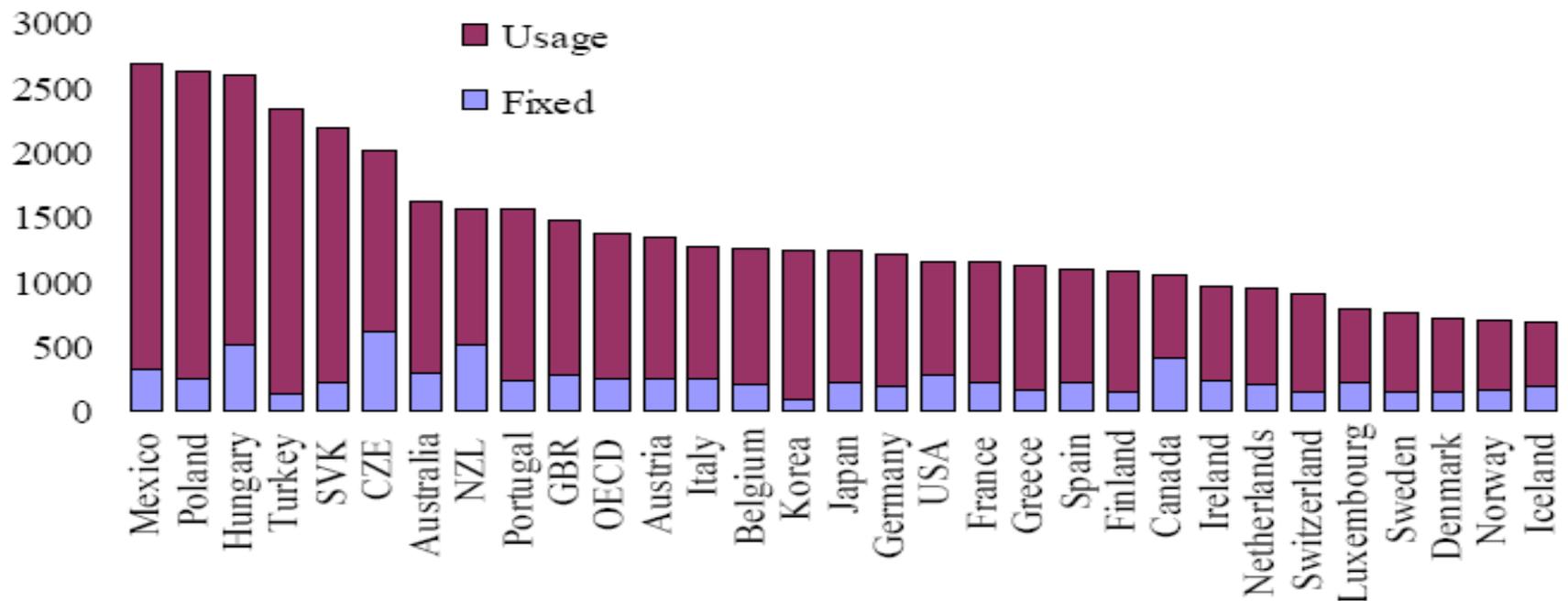
Market obstacles to business development



Source: CEESP, Encuesta Sobre Gobernabilidad y Desarrollo Empresarial (2005)

Competition in product markets: the telecom example

Composite basket of business telephone charges 1/, August 2004
(excluding VAT)



Source: OECD Communications Outlook 2005.

1/ Basket includes international calls and calls to mobile networks.

Competition in product markets: the Wal-Mart example

- Case study of Soap, Detergent, and Surfactant industry reveals powerful effects of the liberalization of the retail sector: the value added per worker increased by 90% between 1996 and 2004.
- Main factor: fundamental change in the relationship between retailers and suppliers, new business practices brought by Wal-Mart – leading to industrial consolidation.
- Case study suggests large potential gains from reducing remaining barriers to trade and foreign investment -- the highest in the OECD.

Competition in product markets: state intervention has improved slowly

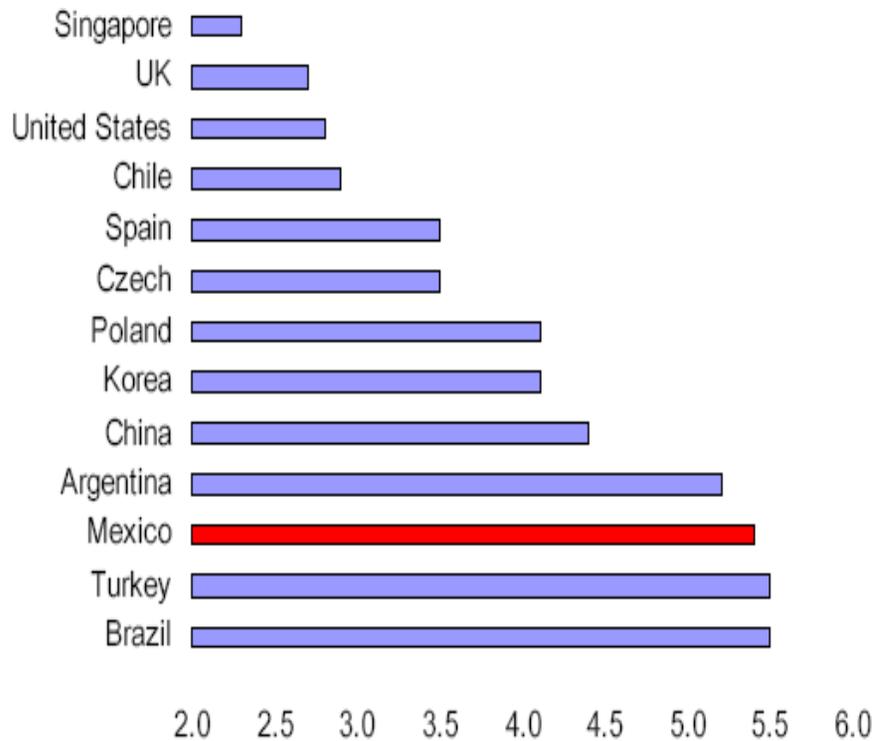
Regulatory Barriers to Product Market Competition, 1998-2003
Mexico, Korea, Czech Republic and Canada
(on a 0-6 scale, with 0 least restrictive and 6 most restrictive)

	Mexico		Korea		Czech Republic	
	1998	2003	1998	2003	1998	2003
Overall score	2.4	2.2	2.5	1.5	3.0	1.7
<i>State control, of which:</i>	2.5	1.9	2.7	1.7	3.9	2.5
involvement in business operations	2.3	1.4	2.2	1.5	2.9	1.9
public ownership	2.5	2.3	3.0	1.8	4.8	3.0
<i>Entrepreneurship barriers, of which:</i>	2.7	2.2	2.5	1.7	2.0	1.9
licenses and permits	4.0	0.0	6.0	2.0	4.0	4.0
simplification rules and procedures	0.5	0.3	1.5	0.0	1.2	0.5
administrative burden for corporations	3.3	3.3	2.7	2.7	3.0	3.0
sector specific administrative burden	3.9	3.2	1.6	1.9	1.7	2.2
anti-trust exemptions	0.9	3.5	0.7	0.6	0.0	0.0
<i>Trade and foreign investment barriers</i>	2.1	2.4	2.2	1.3	3.1	0.9
Memorandum item:						
<i>Regulatory and administrative opacity</i>	2.4	0.4	3.8	1.2	2.7	2.3

Source: OECD (2005a)

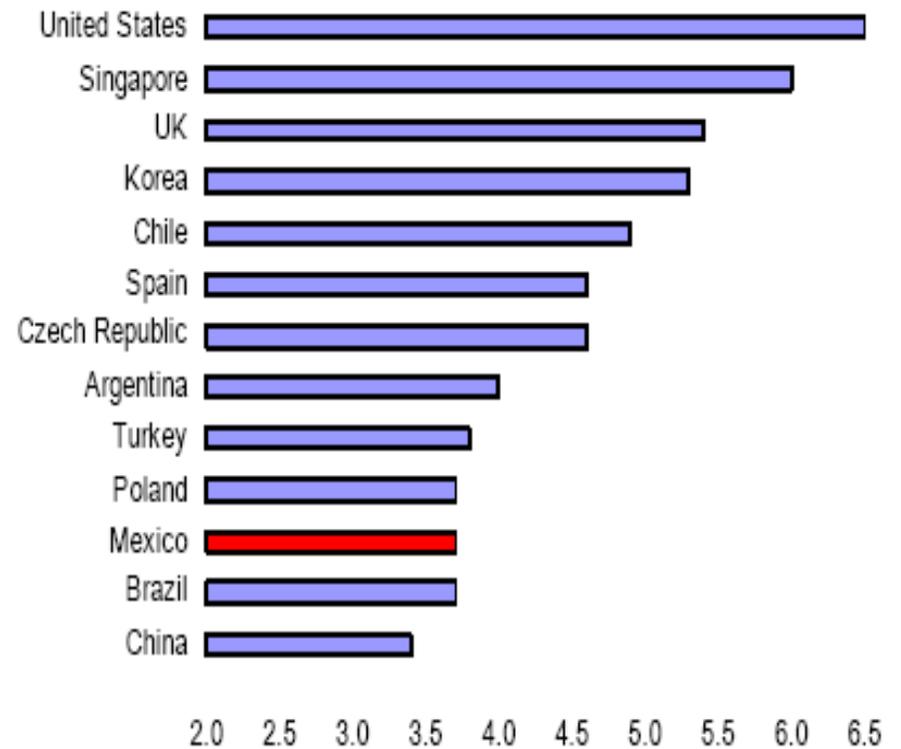
Business environment: inadequate public goods

Efficiency of legal framework



Source: World Economic Forum (2005)

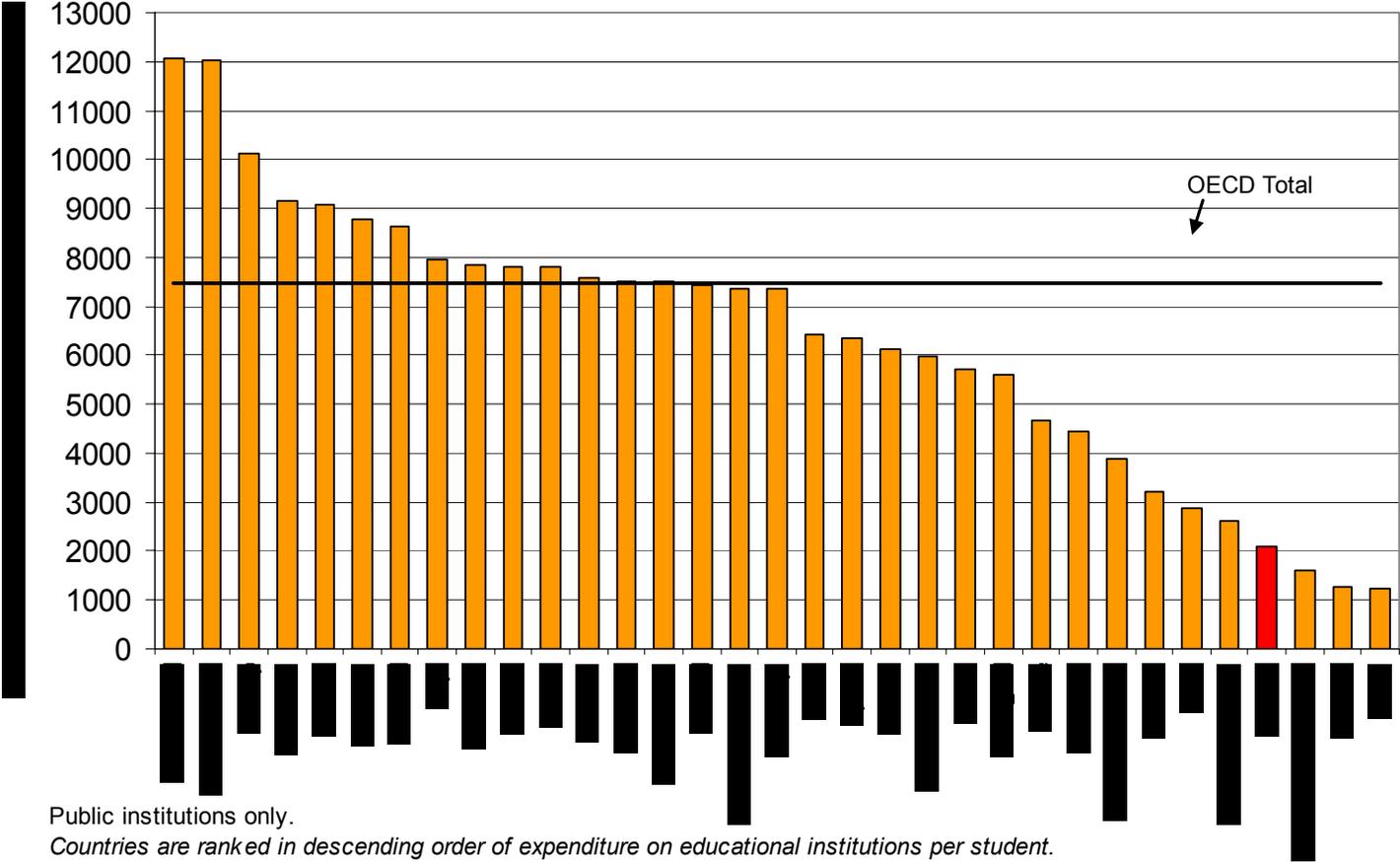
Technological readiness



Source: World Economic Forum (2005)

Level of education spending a factor

Annual expenditure on educational institutions per student in primary through tertiary education (2003)
In equivalent US dollars converted using PPPs, for primary to tertiary education, based on full-time equivalents



Business environment: infrastructure quality a challenge

Comparative Survey on the Quality of Infrastructure, 2005

Country	Overall Infrastructure Quality 1/	Port Infrastructure Quality	Railroad Infrastructure Quality	Air Transport Infrastructure Quality	Electricity Supply Quality
Brazil	2.8	2.7	1.8	4.5	4.7
China	3.2	3.6	3.6	4.0	3.7
Poland	3.2	3.6	3.7	4.0	4.9
Turkey	3.5	3.1	2.1	4.8	4.2
Mexico	3.5	3.3	2.2	4.9	3.8
Argentina	3.6	3.6	2.7	4.3	4.3
Chile	4.9	4.9	2.7	5.7	5.5
Czech Republic	4.9	3.5	5.3	5.2	6.3
Spain	5.2	4.7	4.4	5.6	5.5
Korea	5.2	5.3	5.4	5.5	5.9
UK	5.3	5.3	4.3	6.2	6.5
Singapore	6.7	6.8	5.8	6.9	6.5
Sample Average	3.9	3.8	3.0	4.5	4.6

Conclusion: country comparisons indicate broad priorities

- Improve competition in product and financial markets
- Reduce incentives for informality, including through simpler labor regulations
- Continue reforms that strengthen enforceability and creditor rights, and improve investment in infrastructure and human capital – and secure the required fiscal space