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Economic Watch

Mexico

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Economic Analysis

Mexico

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Situation and competitiveness challenges for the Mexican economy

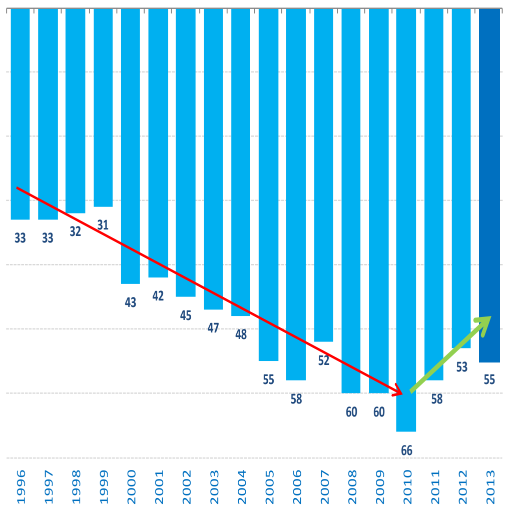
The Mexican economy has a long way to go if it is to improve its competitiveness worldwide

- The Mexican economy's competitiveness, measured by the World Economic Forum's global competitiveness index, came 55th out of 148 countries in the world in 2013
- In the region, Mexico is better positioned in the competitiveness indexes than other countries in Latin America; in fact it beats the nations in the BRICS group: (Brazil, Russia, India, China and South Africa)
- Mexico faces major challenges if it is to improve its competitiveness internationally and, as a consequence of that, increase its development and economic growth. The recently passed structural reforms smooth the way to reaching this goal

It is well known that a nation's development and growth is closely linked to its competitiveness, with the latter being understood as the set of institutions, policies and factors determining a country's productivity or the capacity a nation has to attract and keep investment and talent. However, for many countries in the world, particularly for Mexico, attaining a greater level of competitiveness has become a difficult challenge. According to the World Economic Forum's global competitiveness index (2013-2104), Mexico comes in at position 55 out of a total of 148 countries measured, a similar level to 2005.What is more, it has gone down two notches since 2012, but the most worrying factor is that since 1996 (even taking into account that now more countries are included), Mexico has dropped positions in the index, mainly because of falling back in indicators such as corruption, crime and theft, inefficient government bureaucracy, inefficient tax regulations, insufficient access to financing, restrictive labour regulations, inadequate supply of infrastructure, insufficient capacity to innovate and inadequately educated work force, among other factors. From 2010 positions have begun to recover, but the movement is slow (see Chart 1).

By 2013, of the 12 sub-indexes evaluated in the global competitiveness indicator, efficiency in the labour market was the lowest scoring, ranking 113 out of 148. Going upwards, this was followed by the institutions (96), higher education and training (85), efficiency in the goods market (83), technological readiness (74) and healthcare and primary education (73), all of them below position 70. The best-ranking sub-index was market size, in 11th position. Behind this were macroeconomic environment (49), business sophistication (55), financial market development (59), innovation (61) and infrastructure (64).

Chart 1
Mexico: rankings in the global competitiveness index, 1996-2013*



Source: BBVA Research, with data from World Economic Forum, World Bank. *Note: Highest ranking from one downwards.

Table 1
International comparison indexes, selected countries, 2013-2014

	Global Competitiveness 2013-2014 (WEF), clasification of 148 countries		International Competitiveness 2013 (IMCO), clasification of 46 countries		Doing Business Report 2014 (World Bank), clasification of 189 countries	
First 10 countries	Switzerland	1	Switzerland	1	Singapore	1
	Singapore	2	Denmark	2	Hong Kong	2
	Finland	3	Sweden	3	New Zealand	3
	Germany	4	Netherlands	4	United States	4
	United States	5	Ireland	5	Denmark	5
	Sweden	6	United Kingdom	6	Malaysia	6
	Hong Kong	7	Belgium	7	South Korea	7
	Netherlands	8	Japan	8	Georgia	8
	Japan	9	Australia	9	Norway	9
	United Kingdom	10	Norway	10	United Kingdom	10
Other countries	China	29	Brazil	31	South Africa	41
	South Africa	53	**Mexico**	**32**	**Mexico**	**53**
	Mexico	**55**	South Africa	33	Russian Federation	92
	Brazil	56	China	36	China	96
	India	60	Russian Federation	40	Brazil	116
	Russian Federation	64	India	42	India	134
	Yemen	145	Bolivia	43	Republic of South Sudan	186
	Burundi	146	Guatemala	44	Lybia	187
	Guinea	147	Nicaragua	45	Central African Republic	188
	Chad	148	Venezuela	46	Chad	189

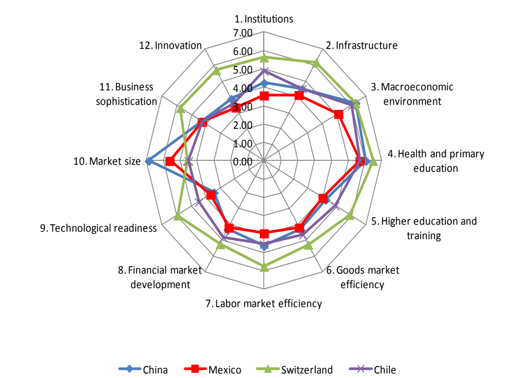
Source: BBVA Research, with data from World Economic Forum, World Bank & IMCO.

In several international comparison indexes, Mexico ranked well below the top ten nations, generally coming in the final third of the table. However, its relative position was similar and even higher than most of the BRICS countries. For example, in the 2013 global competitiveness index, of the BRICS, only China (29) and South Africa (53) ranked higher than Mexico (55). Mexico outranked Brazil (56), India (60) and Russia (64) (see Table 1). In the 2013 international competitiveness index produced by Mexico's Institute for Competitiveness (*Instituto Mexicano para la Competitividad IMCO*), Mexico came 32nd of the 46 countries evaluated. Brazil came in at 31, South Africa 33, China 36, Russia 40 and India 42. When it comes to the World Bank's indicator *Doing Business* 2014, which evaluates how easy it is to do business in a country, Mexico comes 53rd out of the 189 countries included. South Africa takes position 41 and well below them are countries such as Russia (92), China (96), Brazil (116) and India (134). This indicates that Mexico has the potential to be more competitive and have a high rate of economic growth. Despite its deficiencies, Mexico has an attractive economy for domestic and foreign investments. This means that it is starting from a favourable position which could enable it to mix with the best-placed countries.

Looking at the detail, Chart 2 shows a comparison between Mexico's scores in each of the WEF's global competitiveness sub-indexes compared to the top-ranking country (Switzerland), the best of the BRICS (China) and the highest ranking country in Latin America (Chile). Clearly, in most of the sub-indexes, Mexico ranks worse than its counterparts, even in the macroeconomic landscape, even though this has been one of the most stable and favourable that Mexico has had in several decades. Only in market size does Mexico beat Switzerland, the most competitive country in the world. Now, once again, if we compare Mexico with each of the BRICS, the country comes out better, in fact here it beats India, Brazil and South Africa in its macroeconomic environment and health and primary education. What is more, in none of the categories is Mexico worse positioned than the lowest ranking BRICS country in each sub-index (see Chart 3).

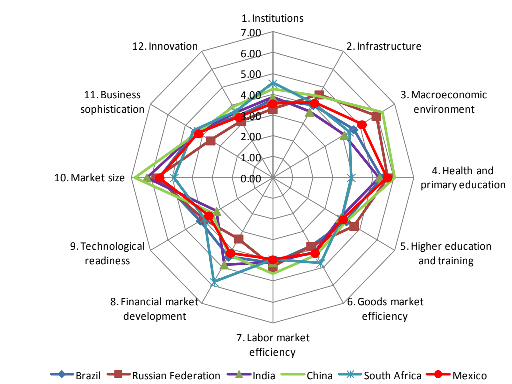
At state level, the IMCO competitiveness index shows that DF was the highest ranking state in 2012. This is due to the fact that the investment in employee retention was 10,459 pesos a year, the percentage of people older than 25 with higher studies (talent) reached 40% and per capita GDP was 169,798 pesos a year (see Chart 4). The four positions after DF were: Nuevo León, Baja California Sur, Coahuila and Querétaro. In the last three positions were Guerrero, Chiapas and Oaxaca, in that order, with investment per worker of less than 2,000 pesos, per capita GDP of around 40,000 pesos a year, and talent retention of less than 18%. Technological Institute of Monterrey's (ITESM) 2012 competitiveness index by state reported very similar results. For example, Mexico DF, Nuevo León and Querétaro are among the most competitive states, while those which have progressed most in this index were: Tabasco, Campeche and Morelos. This index evaluates 4 competitiveness factors: economic performance, governmental efficiency, business efficiency and infrastructure. The best ranking states by economic performance were Nuevo León, Coahuila and Sonora. In governmental efficiency were Campeche, Colima and Querétaro. In business efficiency the following were most prominent: Mexico DF, Nuevo León and Baja California Sur. And in infrastructure the best positioned states were DF, Nuevo León and Morelos.

Chart 2
Scoring in the global competitiveness sub-index for the top-ranking country (Switzerland), the best of BRICS (China), the best in Latin America and Mexico, 2013-2014*



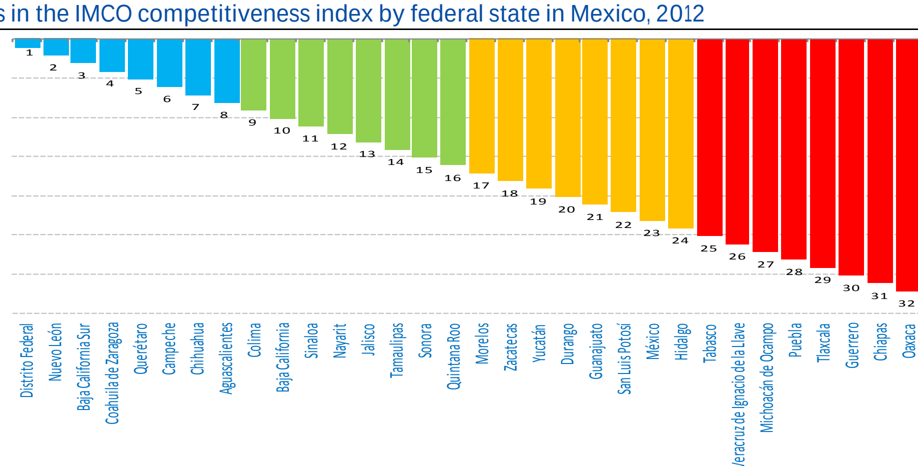
Source: BBVA Research, with data from the WEF, World Bank.
*Note: The closer to the centre, the lower in the ranking, and vice versa.

Chart 3
Scoring in the global competitiveness sub-indexes of BRICS countries & Mexico, 2013-2014*



Source: BBVA Research, with data from the WEF, World Bank.
*Note: The closer to the centre, the lower in the ranking, and vice versa.

Chart4
Positions in the IMCO competitiveness index by federal state in Mexico, 2012



Source: BBVA Research, with data from IMCO.

All this proves that Mexico's low development and economic growth in the last twenty years (an average of 2.6% a year) and in particular in 2013 (around 1.2%) mean that the major challenges facing the Mexican economy can no longer be postponed. Among them feature, as is shown here, the economy's low competitiveness, low productivity (the Total Factor Productivity[1] of the Mexican economy fell by an average of 0.39% a year in the 1991-2011 period, according to data from INEGI); the large informal economy (59% of the working population); the increasing perception of insecurity and the associated costs (according to the INEGI, in 2012 the total cost of insecurity and crime in Mexican households came to 215 billion pesos; that is, 1.34% of GDP.), and the scarcity of resources for innovation, science and technology (in Mexico 0.45% of GDP is invested compared to an average of 2.3% of GDP in OECD countries). The series of reforms passed by the government in 2013 seek to resolve these limitations; however there is still much ground left to be covered and getting Mexico onto a route of greater growth will depend very much on the consensus that can be reached by the country's main political forces represented in Congress, the determination of the government and real commitment on the part of the people. This is particularly important during the preparation stage of the regulations supporting the reforms that have been passed.

With this outlook it is essential to strengthen and improve various areas of opportunity in the Mexican economy. It is important to increase competitiveness, raise productivity, reduce informality, cut insecurity, improve the labour market, implement good quality education, encourage innovation, research and scientific and technological development and protect the environment. Only then will Mexico become more competitive and achieve a greater level of development as well as sustained, and sustainable, growth.

[1] Total Factor Productivity refers to the measure by which total production grows more or less proportionately as each of the productive factors (employment, capital and technology) increases.