

How can Mexico benefit from the digital economy

Martin Cave & Ernesto Flores-Roux
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Mexico is going through a fast process of economic and social transformation with the widespread use of information and communications technologies (ICTs). ICTs are changing the way households, firms and governments communicate, produce, consume, transfer information, interact among them and transact. The goal of this report is to outline where Mexico stands in this process compared with other countries and propose some ideas in terms of public policy and other interventions to deliver the associated potential “digital dividend”.

We first note that Mexico’s performance in digitisation, based on metrics devised by researchers to compare all or similar countries, does not presently show the country to advantage. This is true of the metrics for the digital ecosystem (Katz et al, 2016), as well as those of other organisations, including the World Bank and the World Economic Forum. Relevant progress has been achieved in the last five years, but it has not been enough to change Mexico’s relative worldwide standing.

A fundamental precondition for achieving a good outcome is to ensure reliable and affordable connectivity throughout the country. Inadequately meeting this precondition was the main driver behind the 2013 constitutional reform, followed by changes in legislation and new regulation enacted by the new regulator (IFT). While there has been a significant reduction in prices and new players have entered the market, total sector investment has only increased slightly and the structure of the market has shown only marginal changes. So far, results are positive but far from achieving the desired objectives.

Multiple further changes beyond good connectivity are required to benefit from digitisation. We offer three illustrations. The first is the need to create a well-designed set of independent regulatory agencies acting in a coordinated manner throughout the whole digital ecosystem to ensure that the population gets the benefit of the changes. The responsibilities of IFT, the sector regulator, are limited in this respect; it must interact with other agencies, such as COFECE (competition commission), PROFECO (consumer protection) and the financial regulators (among them, CNBV, Banxico, CONDUSEF). Mexico has invested heavily in building cutting-edge regulatory institutions; the challenge now is to let them grow into respectable mature organisations that can foster an environment to let the digital ecosystem thrive.

Secondly, a set of measures to promote trust in digital systems and digital transactions, including the integrity and robustness of monetary payments and protection of privacy, should be actively promoted. Thirdly, a strong “app economy” capable of meeting the needs of the national market needs to be encouraged within Mexico.

The report also discusses development in four important sectors: e-commerce (which requires on- and off-line infrastructure), e-finance (including the payment of taxes, which could be understood as an e-government function), e-health (where administrative processes have been positively transformed but other processes affecting the delivery of health care to the patient are still work

in progress), and e-education (which is regarded as a big transformation lever that has been scantily exploited).

The impact of digitisation in transforming the Mexican economy could potentially be very large. To estimate this, we utilize a well-known approach which measures the impact of connectivity on economic performance across a range of countries (in our case, a set of 49), focusing upon mobile connectivity because of its predominant and growing role in Mexico. As noted above, Mexico lags behind many comparator countries in the extension and impact of mobile connectivity. ICTs, like any other general purpose technology, impact almost every productive element of the economy, generally rendering higher output (GDP). We estimate that if Mexico's shortfall could be reversed – that is, achieving the level of sector development that would be expected given the country's characteristics –, with accompanying gains in the other key inputs into digitization, an additional 4% of GDP by 2021 might be achievable. This number could be considered an aspiration, but we believe it is feasible in the next five years, with a reasonable likelihood of smaller but still noticeable incremental benefits.

To achieve this aspiration, several levers of public policy need to be pulled simultaneously. Firstly, it is important to maintain pressure through competition in the market place to extend both the speed and the coverage of connectivity, especially that of fast mobile broadband. Clear rules as to which regulator takes the lead in dealing with different elements of the digital ecosystem need to be established; the possibility of confusion, impasse and contradiction in the development, interpretation and enforcement of regulation of the digital ecosystem need to be avoided. Trust in the system needs to be built through measures that guarantee that communications are confidential and that personal data will be safeguarded. Antifraud measures, consumer protection regulation, simplification of processes and rules to lower barriers of use and increase appropriation need be developed.

Demand can only exist if skills and appropriation are in place. One of the most efficient ways to create demand is to create the need. In this respect, the government has a fundamental role, as it can simultaneously rely on pulling several levers: obligations (e.g., tax returns over the Internet), negative incentives (e.g., fees for off-line transactions) and positive incentives (e.g., rewards for certain types of behaviour that wants to be promoted).

Public services provision (among others, education and health), when supported by ICTs, can significantly improve in quality, range, coverage, timing and cost-benefit relationship. The adoption of standards in the delivery of these services, many of which are rendered at the municipality level, becomes a powerful tool to exploit synergies, reduce costs, speed up appropriation and promote innovation at the local level, especially in software and applications("apps").

This is by no means an exhaustive list of policy recommendations, but it provides a starting point to help the digital ecosystem permeate the Mexican economy and reap the benefits in the short term.