# Mexico's Competitiveness as a Strategic Trade Partner

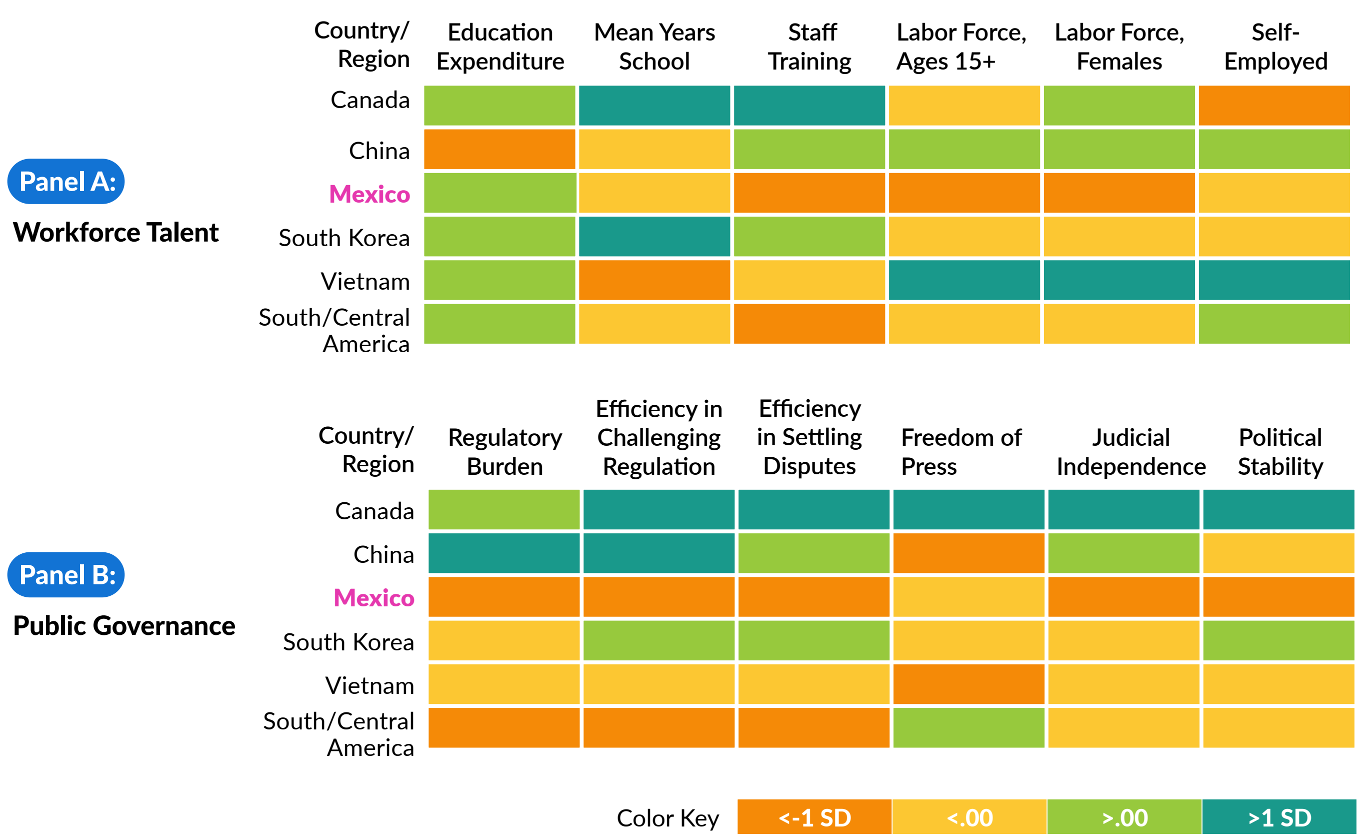
*Research Brief*

Amid global supply chain problems and geopolitical tensions, the US has sought to strengthen its regional ties, resulting in an increased focus on trade with Mexico. In early 2023, Mexico became the main origin of goods imported to the US, with US imports of goods from Mexico surpassing those from China for the first time in 20 years. In light of the growing importance of US–Mexico trade, this report provides a primer on Mexico's competitiveness as a strategic economic partner.

Combining results from the Milken Institute's Global Opportunity Index with Mexican state-level data, we provide a unique perspective on Mexico's strengths and weaknesses. Our results are valuable to both policymakers and investors interested in expanding their Mexican footprint. The main findings are:

- Compared to other US key trade partners, Mexico benefits from its location (resulting in supply chain advantages) and its wide-ranging network of foreign relations founded in well-established trade agreements. However, the country underperforms in key workforce talent metrics that include labor force participation and educational attainment. Public governance also remains an area of concern, with Mexico ranking below average (relative to other US key trade partners) across the board in public governance measures.

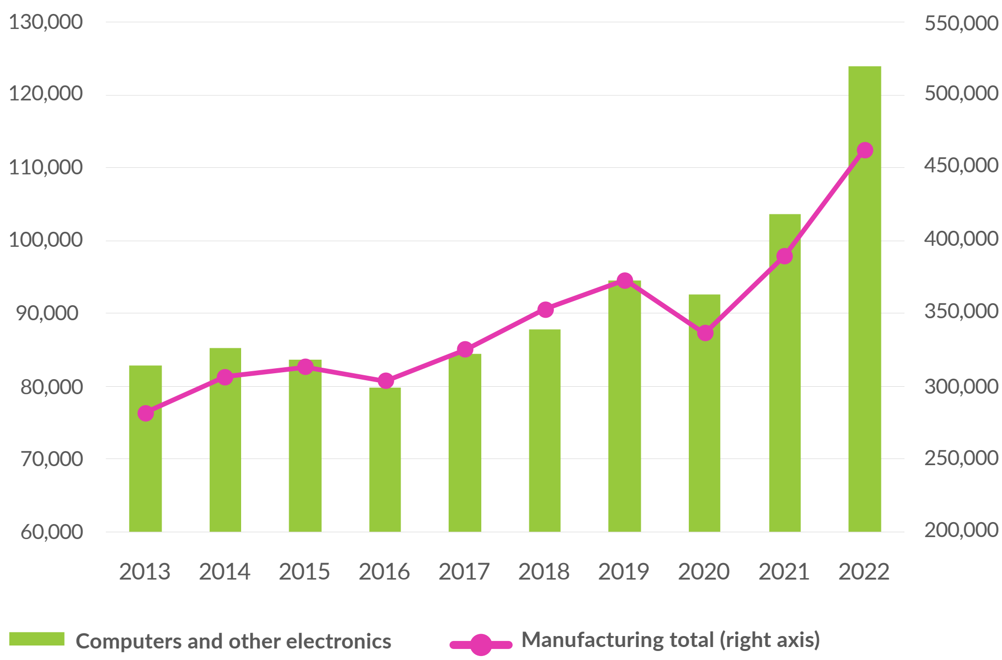
**Figure 1. Mexico's Attractiveness Compared to Other US Key Trade Partners**




*Note: Standard deviations (SD) are calculated relative to the key trade partners included in the table.*
*Source: Milken Institute analysis (2023)*

- Over the past decade, Mexico's exports have grown sharply, and its foreign direct investment (FDI) inflows have remained at a relatively high level. Manufacturing goods represent nearly 90 percent of Mexico's total value of exports, and most of its manufacturing exports fall into the transportation equipment and computers and other electronics sub-sectors. While transportation equipment is Mexico's largest manufacturing sub-sector, the importance of computers and other electronics has grown over time. Mexico's role in the US's envisioned global industrial restructuring could depend on its ability to further increase its advanced technology production.

**Figure 2. Growth of Mexico's Exports of Computers and Other Electronics (US$ mill.)**




*Source: Milken Institute analysis using data from INEGI (2023)*

- Economic gains from rising exports and investment have spread unevenly throughout Mexico. Of its 32 federal entities (i.e., 31 states and Mexico City), 10 produce more than three-fourths of Mexico's exports, and a similar concentration holds for FDI inflows. The north region has benefited most, with all its states included among Mexico's top exporters and investment targets. In contrast, gains from increased economic activity have failed to spread to the south region, which lags in its economic performance.

- Mexico's economic disparities reflect regional differences in educational attainment. All three states with the lowest rates of higher education and schooling are in the south of Mexico. In contrast, the north outperforms other regions on both education metrics. The geographic relationship between public governance and economic performance is more nuanced, with two relatively prosperous entities (Mexico City and Nuevo León) at the opposite ends of the spectrum in terms of judicial efficiency (Nuevo León performing best and Mexico City worst).

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