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Technology, Investment, and Mexico's New President

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As Mexico's strategic importance to the U.S. grows, its newly elected president, Claudia Sheinbaum, has an opportunity to deepen the economic relationship and with-it prosperity in both countries.

As a close ally to outgoing president Andrés Manuel López Obrador, Sheinbaum shares his populist orientation. She has promised to continue his left-leaning policies, which focused on equity and the distribution of wealth for Mexico's poorest, while discontinuing measures to jumpstart an innovation economy. He showed little interest in technology-led growth. He also aggressively promoted fossil fuels through Mexico's national oil company Pemex, and gave preference to the facilities of state-owned electricity provider CFE over cleaner private renewable and natural gas plants.

But she is a different person — a climate scientist with a Ph.D. in energy engineering, she spent four years conducting research at Lawrence Berkeley National Laboratory. This gives her insight into California and how it can contribute to Mexico's growth. Sheinbaum, who won nearly 60% of the vote, can make a course correction. Support for entrepreneurs is not inconsistent with a social justice agenda, and, as the Bay Area has shown, can be a powerful job creator. Renewable energy, too, is a sound long-term bet.

Another big area of opportunity for Mexico is nearshoring — the shift of global production closer to the United States. A realignment of manufacturing is underway as businesses manage risk by reducing their reliance on China. With proximity to the United States and the security provided by the U.S.-Mexico-Canada Agreement, Mexico is a key destination. While China continues to have the deepest supplier system in the world, companies are moving beyond the political line of fi re between the United States and China to develop more resilient supply chains and move production closer to the end user.

In this new world, Mexico is doing well. In the first quarter of 2024, foreign companies announced plans to invest more than $36 billion in Mexico over the next few years, an amount higher than total foreign investment last year. Top investors include

Amazon Web Services and DHL Supply Chain. Half of the investments were in manufacturing, and half by U.S. companies. This activity is particularly clustering in Northern Mexico states close to the U.S. border.

Building on the CHIPS Act, the United States is encouraging Mexico to become part of anew global semiconductor supply chain. While the act's primary aim is to develop manufacturing at home, it also encourages partnerships with secure and reliable partners. Mexico may not end up building large fabs (high-end manufacturing facilities costing upwards of $10 billion) but it could host activity around packaging and components.

Large businesses are driving the tech shift. U.S. AI companies are encouraging partners such as Foxconn to manufacture AI servers in Mexico. Technology companies such as Dell and HP Inc. are also asking suppliers to move production from China to either Mexico or Southeast Asia.

This game is Mexico's to lose — which presents an opportunity for Sheinbaum. Mexico can't take these flows of investment for granted and needs to strategically invest in the energy, water, transportation and human infrastructure that will enable U.S. and other companies to grow. It also must address the issue of security that continues to plague Mexico and which Lopez Obrador's policies have failed to resolve.

Sheinbaum's election comes at a moment when Mexico can expand its technology base, diversify its energy sources and leverage the benefits of nearshoring. With the right decisions, Mexico's economy can grow, and with it a more prosperous and secure North America.

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