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Strategic Change
"Franco Fontana"

GEOPOLITICAL RISK OBSERVATORY

Mexico

An overview

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GRO Country Profile: Mexico

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

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Summary

- Mexico is a federal presidential republic whose political system is currently dominated by the ruling Morena party. Since 2018, the centralisation of power has weakened institutional checks, notably the judiciary and autonomous regulators, moving the country towards a hybrid democracy, although government stability remains high.
- Integration with the United States is structural and asymmetric, spanning trade (NAFTA/USMCA), security and migrant remittances. Foreign policy remains anchored in non-intervention and a formal defence of sovereignty, which coexists with deep operational cooperation with Washington.
- Key business challenges include organised crime and extortion, exposure to US trade measures, the dominant role of the state in strategic sectors, and structural governance weaknesses, notably corruption and declining judicial independence.

Basic Parameters

Indicator	2020	Latest value
GDP (PPP, USD bn)	2,450	3,581 (2026 proj.)
Population (mn)	126.0	133.0 (2025)
Population under 25 (%)	43.8	41.0 (2025)
Population over 65 (%)	7.5	8.5 (2025)
Urban population (%)	79.0	81.9 (2024)
Unemployment rate (%)	4.4	3.0 (Aug 2026)
Youth unemployment 15–24 (%)	n.d. *	5.8 (2025)
CPI inflation (% annual average)	3.4	3.9 (2026 proj.)
Gross public sector debt (% of GDP)	53.9	62.1 (2026 proj.)
FDI inward flows (USD bn)	29.1	41.0 (2025)

*For 2020 data is not available as the ENOE survey was suspended during Covid-19

Sources: IMF – World Economic Outlook, April 2026 (GDP PPP, both 2020 and latest values; population and CPI inflation, latest values) and Staff Concluding Statement of the 2026 Article IV Mission, October 2026 (gross public sector debt, latest value); World Inequality Database (WID.world) (income and wealth shares); UN DESA – World Population Prospects 2024 and World Urbanization Prospects (population structure, urban population); INEGI – Population and Housing Census 2020 (population, 2020), National Survey of Occupation and Employment, ENOE (unemployment) and National Consumer Price Index (CPI inflation, 2020); OECD – Infra-Annual Labour Statistics (youth unemployment; 2020 not available due to the suspension of the ENOE survey during the pandemic); UNCTAD – World Investment Reports 2021 and 2026 (FDI flows) – World Bank – The Global Economy. Year-to-date FDI inflows reached USD 34.97 bn in January–June 2026 (+2.1% y/y, Secretaría de Economía).

Historical context

After 1945 Mexico experienced the long hegemony of the Institutional Revolutionary Party (PRI), a competitive authoritarian regime that ensured stability through corporatist clientelism. In foreign policy the country pursued a cautious autonomy: under the Estrada Doctrine it maintained relations with Cuba throughout the Cold War without breaking with Washington. The Tlatelolco massacre (2 October 1968) undermined the regime's legitimacy, while the debt crisis of August 1982 triggered a neoliberal turn, culminating in accession to the General Agreement on Tariffs and Trade (GATT) in 1986 and entry into the North American Free Trade Agreement (NAFTA) on 1 January 1994.

The year 1994 summarizes the country's recurring fragilities: the Zapatista uprising on the very day NAFTA entered into force, the assassination of presidential candidate Luis Donaldo Colosio (March 23rd) and the peso crisis in December. In the same year Mexico joined the OECD. The democratic transition was completed on 2 July 2000 with the victory of Vicente Fox of the National Action Party (PAN), ending 71 years of PRI rule.

On 11 December 2006 Felipe Calderón launched the militarisation of the fight against drug cartels. Since then, criminal violence has been the main source of structural instability. The December 2013 energy reform opened the sector to private investment, but it was largely reversed after Andrés Manuel López Obrador's victory on 1 July 2018. The USMCA (July 1st 2020) and nearshoring deepened North American integration.

The election of Claudia Sheinbaum on 2 June 2024 with a qualified majority, followed by the judicial reform of September 2024, marked a phase of power centralisation, set against a relationship with the United States shaped by trade and security issues.

Institutional Set-Up and Structural Challenges

Mexico is a federal republic of 32 entities with a presidential system; the president stays in power for a single six-year term with no re-election. On the democracy–authoritarianism spectrum, the country sits between an electoral democracy and a hybrid regime. Elections remain competitive and alternation in power is possible, but checks and balances have weakened considerably since 2018. The 2024 judicial reform introduced the popular election of judges, including Supreme Court justices: autonomous bodies such as the transparency institute (INAI), the competition authority (COFECE) and the telecommunications regulator (IFT) have been abolished. On top of that, a reform of the amparo (constitutional injunction) has narrowed protection against state acts. Federalism is formally strong but fiscally unbalanced as states depend heavily on federal transfers.

Government stability is structurally high. The ruling party is dominant, President Sheinbaum enjoys high approval ratings, and the opposition (PAN, PRI, Movimiento Ciudadano) is fragmented. The main source of friction lies within the governing coalition. For constitutional reforms Morena depends on its junior allies, the Labour Party (PT) and the Green Party (PVEM), which have shown they can block initiatives affecting their interests, such as changes to proportional representation. Social protest is widespread but fragmented and rarely threatens government stability.

The economy is diversified and dominated by export-oriented manufacturing integrated into North American value chains (automotive, electronics, medical devices), but it is heavily concentrated on a single market, with around 80% of exports going to the United States. The state retains a central role in energy through Petróleos Mexicanos (Pemex) and the Federal Electricity Commission (CFE), and Pemex remains a structural fiscal liability. Potential growth is low, constrained by infrastructure gaps, informality and a weak rule of law. The IMF projects growth of

1.5% in 2026 and has called for stronger efforts to reduce public debt. Large family-owned conglomerates hold dominant positions in telecommunications, finance, real estate and media, although this falls short of oligarchic capture of the state.

Economic concentration is among the highest in the world: according to the World Inequality Database, the top 10% receives 59.1% of national income (2025) and holds 72.05% of national wealth (2024), a slight improvement on 2020 (61.6% and 72.60%) linked to minimum wage increases and social transfers. Informal employment is structural, covering around 55% of employed workers, so low official unemployment masks widespread underemployment and job insecurity, which particularly affect young people. The territorial divide is deep between the industrial north and the Bajío, integrated into global markets, and a poorer south (Chiapas, Oaxaca, Guerrero) with weaker access to quality healthcare and education. There are no significant separatist movements. The main internal fragility is criminal territorial governance, namely de facto control by armed groups over territory, local economies and municipal administrations.

Mexico is a member of the OECD, G20, APEC and CPTPP and belongs to no military alliance. It depends on the United States for trade, finance and energy (natural gas). Migrant remittances add a further layer of dependency. Inflows reached USD 63.4 billion over the last twelve months (around 3% of GDP), leaving household consumption, particularly in the central-western states, exposed to Washington's immigration policy choices. The bilateral relationship features a recurring tension between US pressure for actions against cartels, which since 2025 includes the designation of several Mexican criminal groups as foreign terrorist organisations, and Mexico's sovereignty red line excluding foreign military operations on its territory; in practice, cooperation on intelligence, border management and training is close. The USMCA provides for periodic reviews of the agreement, which feed recurring trade uncertainty.

The main risks to monitor include: periodic USMCA reviews and US trade measures (medium-high probability of partial and sector-specific trade shocks); the 2027 mid-term and 2030 presidential elections (medium probability of spikes in local political-electoral violence); fiscal sustainability and financial support to Pemex (medium probability of pressure on the sovereign rating); unilateral US military action against cartels on Mexican territory (low probability, but very high potential impact).

Business implications

Opportunities

Mexico is consistently among the world's leading investment destinations. In 2025 it returned to UNCTAD's top ten FDI recipients, with inflows of USD 41 billion. Its structural advantages are proximity to the US market, preferential access under the USMCA, a young and competitive industrial workforce and a network of trade agreements with more than 50 countries. Inflows, however, rely mainly on the expansion of investors already present. In the first half of 2026, almost

90% of FDI consisted of reinvested earnings, signalling a deeply rooted production base but caution among new entrants. Sectors with strong growth prospects include medical devices, electronics, automotive and aerospace components, data centres (notably in the Bajío and Querétaro), logistics and industrial parks along the northern border, and transport and energy infrastructure, where mixed schemes with state-owned enterprises open space for private investors, albeit in a subordinate position.

The IMF describes the Mexican banking sector as well capitalised with low delinquency. The country benefits from a Flexible Credit Line with the IMF, a floating exchange rate and an autonomous central bank (Banco de México). Financial services, domestic consumption, private healthcare and tourism are relatively insulated from geopolitical and trade shocks.

Challenges

- *Security challenges:* Organised crime is the most serious and persistent challenge. Since 2006 the country has lived with high levels of homicidal violence, and the fragmentation of cartels has multiplied armed groups and pushed them to diversify into extortion, fuel and cargo theft, migrant smuggling and legal economies. Homicides have fallen considerably over the past two years, with the daily average dropping from 86.9 in September 2024 to 40.8 in August 2026, the lowest level since 2015 (SESNSP), but violence remains territorially concentrated, with seven states accounting for around half of all homicides, and disappearances remain a blind spot in official statistics. For businesses, the impact runs through extortion, which particularly affects micro and small enterprises and is widespread along supply chains and in freight transport; cargo theft on major road corridors; criminal infiltration into sectors such as agrifood, mining and construction; and constraints on recruiting and moving skilled staff in the most affected areas. The US designation of cartels as terrorist organisations has added a legal risk as extortion payments may constitute 'material support', while growing US attention to collusion between organised crime and local politicians turns institutional intermediaries into compliance risks.

  Mexico's security risk is assessed as Band 4 (high challenges).

- *Regulatory challenges:* External regulatory exposure is structurally high, given dependence on the US market and vulnerability to Washington's trade measures. Preferential access under the USMCA remains broad, with around 85% of exports to the United States entering duty-free, but strategic sectors are subject to Section 232 tariffs of up to 50% on steel, aluminium and copper and 25% on vehicles (applied to non-US content), and USMCA rules of origin impose stringent regional content requirements, especially in the automotive sector. Domestically, the primacy of state-owned enterprises in energy limits competition, the

foreign investment framework is subject to revision, tariff policy has become more protectionist towards Asian countries without trade agreements, and tax increases are possible given a narrow tax base and rising spending pressures. On the other hand, Mexico applies no capital controls and profit repatriation is unrestricted.

Mexico's regulatory risk is assessed as Band 3 (medium challenges).

- *Governance challenges:* The rule of law is weak and trending negatively. In Transparency International's 2025 Corruption Perceptions Index, Mexico scored 27/100, ranking 141st and last among OECD countries, with fuel-tax smuggling (huachicol fiscal), extortion by authorities, impunity and discretionary public procurement cited as key factors. Impunity is high and prosecutors' offices are weak. The popular election of judges increases the risk of partial rulings in disputes against the state or politically connected actors, while the abolition of the competition authority and the transparency institute reduces safeguards against cronyism and procurement opacity. The business functions most exposed are fair competition for public contracts and concessions, the protection of intellectual property and contracts in court, and compliance with the FCPA, the UK Bribery Act and labour and human rights standards along agricultural and mining supply chains.

  Mexico's governance risk is assessed as Band 4 (high challenges).

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