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PRODUCTIVITY, PRODUCTIVE STRUCTURE, AND SUSTAINABLE ECONOMIC GROWTH

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Executive Summary

Mexico faces a structural economic challenge over the coming decade. For more than three decades, the economy has grown at a moderate pace, but this growth has not translated into sustained gains in productivity, real wages, or broadly shared prosperity. The core problem is not the absence of growth per se, but rather the structural inability of Mexico's productive structure to transform factor accumulation and demand expansion into efficiency gains, productive learning, and rising economic complexity.

The evidence is clear. Between 1991 and 2024, average economic growth reached 2.29 percent per year. However, Total Factor Productivity (TFP) subtracted an average of 0.51 percentage points from growth. In practical terms, Mexico has grown despite its productivity, not because of it. Growth has been driven almost exclusively by the accumulation of capital, labor, and intermediate inputs, with a systematically negative contribution from aggregate efficiency, reflecting the persistent absence of productivity gains, productive learning, and technological diffusion.

This pattern is not neutral. It imposes structural limits on potential growth, constrains real wage growth, reduces long-term fiscal space, and perpetuates high levels of productive heterogeneity. A narrow set of dynamic sectors accounts for a disproportionate share of aggregate growth, while large segments of the economy—where employment is concentrated—remain stagnant and characterized by low productivity.

Sectoral and growth-accounting analysis based on the KLEMS (Capital, Labor, Energy, Materials and Services) framework confirms this diagnosis. At the aggregate level, economic growth has been explained by the accumulation of capital services, labor, and intermediate inputs, while productivity has contributed negatively. This dynamic is replicated across most sectors, with only limited exceptions that are insufficient to alter the overall pattern. The expansion of dynamic sectors has not translated into broad-based technological diffusion or sufficiently strong productive linkages.

The decomposition of aggregate supply and demand reinforces this conclusion. Between 1994 and 2024, aggregate demand grew at a relatively dynamic pace, driven by private consumption, investment, and exports. However, a growing share of that demand has been absorbed by imports, reflecting high import elasticity and a weakening domestic growth multiplier. In the absence of a stronger productive base, demand growth does not translate fully into domestic production, productive investment, or sustained productivity gains.

This diagnosis becomes particularly relevant in the current geoeconomic context. The global economy is undergoing a phase of fragmentation, characterized by the strategic use of trade, technological, and financial instruments, as well as a deep reorganization of global value chains. Cost-based efficiency has increasingly given way to criteria related to resilience, economic security, and production reliability.

For Mexico, this environment represents a significant—but conditional—opportunity. Integration with North America, US-driven regional reindustrialization, and recent adjustments in trade policy, including tariff changes vis-à-vis China, open space for investment and productive reconfiguration. However, these opportunities do not materialize automatically. In a

more selective global environment, investment flows gravitate toward economies capable of providing sufficient energy, economic security, institutional certainty, and domestic productive capabilities that enable scaling and learning.

International evidence is consistent: without productivity, there is no sustainable capture of nearshoring benefits or trade reconfiguration. In this sense, the external environment acts less as an exogenous engine of growth and more as an amplifier of internal strengths and weaknesses.

The document identifies six structural constraints that limit Mexico's growth and that have become increasingly binding in the new geoeconomic context: (i) informality and resource misallocation; (ii) low economic complexity and limited productive diversification; (iii) underinvestment in innovation and technological diffusion; (iv) insecurity and extortion as implicit economic costs; (v) market power and regulatory distortions; and (vi) energy, financial, and institutional constraints. These constraints reinforce one another and explain both weak productivity performance and the sectoral and territorial concentration of growth.

Against this backdrop, the document proposes a growth and productive transformation strategy for the period 2026–2036, whose central objective is to reverse the negative contribution of productivity and to sustainably raise the country's level of economic complexity. The strategy does not seek to maximize short-term growth, but rather to transform the productive structure in order to enable higher, more inclusive, and more sustainable growth over time.

The proposal is articulated around four guiding principles: productivity as a condition for sustainability; related diversification and economic complexity; the State as a coordinator of the discovery process; and a territorial approach with a long-term horizon. The strategy is implemented sequentially: first by removing critical bottlenecks (energy, economic security, institutional certainty), then by scaling innovation policies, technological diffusion, and development hubs, and finally by consolidating persistent gains in productivity, real wages, and welfare.

Scenario analysis for 2026–2036 shows that Mexico's future growth is not exogenous. Under a continuity scenario, growth would remain around 2.3–2.6 percent per year, with TFP close to zero. Under a stagnation scenario, growth could fall to 1.5–2.0 percent annually. By contrast, consistent implementation of the strategy would make it possible to raise potential growth toward 3.5–4.0 percent per year, supported by a positive and sustained contribution from productivity.

The central conclusion is unequivocal: Mexico does not face a lack of opportunities, but rather a deficit of internal productive capabilities. Turning the new geoeconomic environment into a source of sustainable growth requires a shift from an accumulation-based model to one grounded in productivity, productive learning, and economic complexity.

This document does not propose a change in development objectives, but rather an economic architecture that makes existing objectives viable and sustainable. The difference between remaining on a path of moderate growth and transitioning toward a trajectory of greater prosperity will depend on the ability to remove structural constraints, coordinate key policies, and sustain a long-term strategy over the period 2026–2036.

1. Explicit Link to the National Development Plan 2025–2030

The National Development Plan (NDP) 2025–2030 constitutes the guiding framework for Mexico's economic, social, and territorial policy in the medium term. This document explicitly adopts the objectives, principles, and priorities established in the NDP and seeks to complement and strengthen them from a productive and long-term perspective, without redefining goals or introducing parallel agendas.

1.1 Objectives of the NDP Adopted as a Starting Point

In particular, the analysis and proposals developed throughout the document align with four core NDP objectives:

1. Economic growth with well-being, understood not merely as GDP expansion, but as sustained improvements in household income, real wages, and productive inclusion.
2. Reduction of regional inequalities, through a territorial development strategy that leverages the productive potential of different regions.
3. Strengthening of the State and its strategic capacities, especially in key areas such as energy, infrastructure, development finance, and planning.
4. Fiscal and social sustainability, recognizing that the expansion of rights and social programs requires a dynamic and sustainable productive base.

These objectives constitute the normative and strategic framework within which this document is situated.

1.2 Productive Gaps Addressed by This Document

While the NDP clearly defines national development objectives, an analytical and operational gap remains regarding the productive mechanisms that make these objectives viable over time. In particular, the NDP does not systematically develop:

- an explicit decomposition of the sources of economic growth (capital, labor, inputs, and productivity);
- a detailed diagnosis of why productivity has remained persistently low;
- a clear articulation between sectoral growth structure, informality, and productive heterogeneity; or
- a sequenced productive transformation strategy extending beyond the six-year policy cycle.

This document seeks to fill these gaps by providing an economic architecture that connects the objectives of the NDP with the productive processes that sustain them. In this sense, it does not replace the NDP, but rather operationalizes it from the perspective of productivity, productive structure, innovation, and territorial development.

1.3 Why 2026–2036 Is the Appropriate Time Horizon

The 2026–2036 horizon reflects a strictly economic and technical consideration: productive transformation, technological learning, and structural change do not occur over short time frames.

International evidence shows that:

- investment in infrastructure, energy, and human capital has long maturation periods;
- technological diffusion and productive diversification require institutional persistence; and
- sustained increases in Total Factor Productivity emerge over a decade or more, not within a few years.

The 2026–2036 horizon therefore allows for:

- alignment of policy decisions with the real timelines of investment and productive learning;
- sequential evaluation of results and course correction without losing strategic coherence; and
- the articulation of a State-level development vision that transcends administrative cycles without contradicting them.

1.4 Synthesis

Taken together, this document:

- adopts the objectives of the NDP 2025–2030 as its guiding framework;
- complements those objectives with a deep productive diagnosis; and
- extends the time horizon to ensure that economic growth, social well-being, and fiscal sustainability reinforce one another over the long term.

From this perspective, growth based on productivity, economic complexity, and innovation does not represent an alternative agenda, but rather the economic condition required for the objectives of the National Development Plan to be viable, durable, and transformative.

2. Long-Term Macroeconomic and Productive Diagnosis

2.1 Aggregate Economic Growth: Persistence of Insufficient Performance

Over the past three decades, the Mexican economy has exhibited moderate, volatile, and insufficient growth to close structural income gaps, fully absorb labor force expansion, and sustain lasting improvements in well-being. According to the most recent update of INEGI's

KLEMS model, between 1991 and 2024 output grew at an average annual rate of 2.29 percent—below that of comparable economies and clearly insufficient for sustained per-capita income convergence.

This outcome cannot be attributed to recurrent macroeconomic instability or to a prolonged collapse of investment or external trade. Mexico has maintained nominal stability, relative fiscal discipline, and deep integration into international markets. However, these conditions have not translated into persistent gains in productive efficiency or deep structural change. Low growth is therefore structural rather than merely cyclical.

2.2 Growth Accounting: Evidence from the KLEMS Model

The KLEMS framework decomposes economic growth into the contribution of productive factors—capital, labor, and intermediate inputs—and Total Factor Productivity (TFP). The **Appendix** summarizes the methodology. Evidence for the 1991–2024 period, presented in **Table 1**, is conclusive.

On an annual average basis:

- Output growth amounted to 2.29 percent.
- The combined contribution of productive factors reached 2.80 percentage points.
- TFP contributed negatively, subtracting 0.51 percentage points.

This implies that Mexico's growth has been driven almost exclusively by extensive factor accumulation, rather than sustained improvements in efficiency, productive organization, or technological progress. In economic terms, Mexico has grown despite its productivity, not because of it.

The persistence of negative TFP over more than three decades signals deep structural distortions in resource allocation, technological diffusion, and the accumulation of productive capabilities.

2.3 Accumulation Pattern: Capital, Labor, and Intermediate Inputs

The decomposition of individual factor contributions reinforces the diagnosis of extensive growth:

- **Capital** contributed an average of 1.46 percentage points, dominated by non-ICT capital (1.32 percentage points), suggesting limited incorporation of digital and frontier technologies.
- **Labor** contributed only 0.25 percentage points, reflecting employment expansion rather than systematic improvements in human capital or labor productivity.

Table 1 – Contribution of Production Factors to Mexico's Economic Growth, 1991–2024

Concept	Production Value	Total Capital Services	[a] ITC Capital Services	[b] Non-ITC Capital Services	Total Labor Services	Energy	Materials	Services	Factors Contribution	Total Factor Productivity
1991	5.69	1.84	0.09	1.75	0.48	0.59	1.08	0.40	4.39	1.31
1992	5.24	2.84	0.18	2.66	0.70	0.15	1.29	0.64	5.61	-0.37
1993	2.17	2.65	0.24	2.41	0.47	0.13	0.42	0.18	3.85	-1.68
1994	5.69	2.40	0.24	2.16	0.39	0.40	1.98	0.71	5.89	-0.20
1995	-7.21	1.71	0.06	1.65	-0.24	-0.18	-2.76	-1.20	-2.66	-4.54
1996	6.76	0.18	-0.08	0.26	0.52	0.18	3.01	0.40	4.28	2.48
1997	8.14	1.50	0.06	1.44	1.06	0.26	3.33	0.89	7.05	1.09
1998	7.46	2.33	0.14	2.19	0.47	0.39	2.99	0.74	6.93	0.53
1999	3.19	2.44	0.16	2.28	0.64	-0.02	1.32	0.67	5.04	-1.85
2000	6.05	2.38	0.19	2.19	0.32	0.12	2.60	0.74	6.16	-0.12
2001	-1.15	2.01	0.18	1.83	0.41	0.04	-0.75	-0.10	1.60	-2.76
2002	-0.43	1.47	0.12	1.35	-0.10	0.02	-0.16	-0.13	1.09	-1.52
2003	1.02	1.27	0.12	1.15	0.33	0.16	0.00	0.12	1.89	-0.87
2004	3.35	1.31	0.15	1.16	0.62	0.12	0.95	0.32	3.31	0.03
2005	2.44	1.44	0.12	1.32	-0.11	-0.08	1.12	0.47	2.84	-0.40
2006	5.30	1.68	0.13	1.55	0.54	0.04	2.19	0.60	5.06	0.24
2007	2.24	1.94	0.20	1.74	0.35	-0.01	0.92	0.18	3.36	-1.13
2008	-0.01	2.11	0.30	1.81	0.26	-0.06	-0.19	-0.12	2.00	-2.02
2009	-6.92	1.47	0.28	1.20	-0.39	-0.03	-3.06	-0.66	-2.67	-4.25
2010	5.72	1.13	0.27	0.87	0.20	-0.13	2.91	0.29	4.41	1.31
2011	3.34	1.64	0.34	1.30	0.34	-0.10	1.12	0.50	3.49	-0.15
2012	3.39	1.79	0.27	1.52	0.47	0.11	0.89	0.41	3.66	-0.27
2013	0.77	1.49	0.13	1.35	0.31	0.10	0.22	-0.11	2.00	-1.23
2014	2.26	1.13	0.06	1.07	0.12	-0.17	0.93	0.25	2.27	-0.01
2015	2.21	1.15	0.07	1.08	0.22	-0.11	0.93	0.07	2.27	-0.06
2016	1.19	1.26	0.07	1.19	0.08	-0.22	0.54	0.08	1.75	-0.56
2017	1.83	1.11	0.05	1.05	0.01	-0.47	1.40	0.21	2.26	-0.43
2018	1.11	0.95	0.08	0.87	0.14	-0.37	0.40	0.09	1.22	-0.11
2019	-0.39	0.70	0.09	0.61	0.16	-0.07	-0.17	0.10	0.72	-1.12
2020	-8.92	0.07	0.04	0.03	-0.57	-0.42	-3.10	-0.95	-4.96	-3.95
2021	7.02	-0.11	0.03	-0.15	0.13	0.68	2.69	0.35	3.75	3.27
2022	4.92	0.33	0.08	0.25	0.20	0.44	1.83	0.65	3.45	1.47
2023[R]	3.69	0.83	0.06	0.77	-0.08	0.07	1.61	0.37	2.79	0.89
2024[P]	0.76	1.14	0.04	1.10	-0.05	0.15	-0.48	0.36	1.11	-0.35
Average 1991-2024	**2.29**	**1.46**	**0.13**	**1.32**	**0.25**	**0.05**	**0.82**	**0.22**	**2.80**	**-0.51**

Notes: *[a]Information Technology and Communications, [b]Non-Information Technology and Communnications, [R]Revised data, [P]Preliminary data.*

Source: INEGI. System of National Accounts of Mexico. Total Factor Productivity – KLEMS Model.

- **Intermediate inputs**—energy, materials, and services—accounted jointly for 1.10 percentage points, with a growing weight of materials and services in productive dynamics.

This pattern is consistent with an economy that grows by using more inputs rather than becoming more efficient. In the absence of TFP gains, accumulation faces diminishing returns and heightened vulnerability to external and financial shocks.

2.4 Cyclical Behavior of Productivity: Structural Asymmetry

The time profile of TFP reveals a relevant asymmetry. During major crises—1995, 2009, and 2020—productivity registered sharp and deep declines associated with contractions in output. However, during recovery phases, TFP failed to converge persistently toward a positive trajectory.

While temporary rebounds are observed in some expansion years (e.g., 2010 and 2021–2023), these do not consolidate into a structural trend. Crises destroy productive capabilities, but growth phases do not generate sufficiently strong processes of learning, innovation, and efficient resource reallocation.

This pattern indicates that economic growth in Mexico is not self-correcting from a productive standpoint: growth does not automatically lead to higher efficiency.

2.5 Productive Heterogeneity and Resource Misallocation

Aggregate productivity performance is consistent with an economy characterized by deep and persistent productive heterogeneity. Highly productive segments integrated into modern value chains coexist with a broad base of low-productivity activities marked by limited technological adoption and high informality.

This heterogeneity is not marginal. It constitutes a central determinant of weak TFP performance by limiting the efficient reallocation of capital and labor toward higher-productivity activities. Economic expansion therefore tends to concentrate where capabilities already exist, while employment-intensive sectors face structural barriers to innovation, scaling, and formalization.

2.6 Macroeconomic Implications of Low Productivity Growth

An economy that grows without productivity faces increasing constraints:

- limited real wage growth;
- slower per-capita income growth;
- heightened vulnerability to external shocks; and

- reduced long-term fiscal space.

These constraints do not stem from short-term demand insufficiency, but from limited productive capacity to transform growth into sustainable well-being. In this sense, Mexico's growth problem is structural and cumulative.

2.7 From Productive Diagnosis to Structural Analysis

The KLEMS analysis answers a fundamental question: how the Mexican economy has grown in terms of productive factors and efficiency. To fully understand the persistence of low productivity, however, it is necessary to identify where growth is generated and how it propagates through the economy.

The following sections therefore deepen the analysis along two complementary dimensions:

- the sectoral structure of growth (Section 3), identifying the activities driving GDP expansion and their contribution to aggregate productivity; and
- the composition of aggregate supply and demand (Section 4), analyzing how growth has been absorbed through consumption, investment, exports, and imports.

Together, these dimensions complete the long-term macroeconomic and productive diagnosis and lay the groundwork for identifying structural constraints and designing a sustainable growth strategy for 2026–2036.

3. Sectoral Contribution to GDP Growth in Mexico

3.1 From Growth Accounting to Productive Structure

Section 2 documented that Mexico's economic growth between 1991 and 2024 has been driven almost exclusively by the accumulation of productive factors, with a persistently negative contribution from Total Factor Productivity (TFP). To understand the structural causes of this outcome, it is essential to identify which sectors have driven growth and how they have performed in productivity terms.

Table 2 extends INEGI's KLEMS model to the sectoral and subsectoral level, allowing the decomposition of output growth into contributions from capital (ICT and non-ICT), labor, intermediate inputs, and TFP for the 1991–2024 period. This exercise follows a growth-accounting logic and is conceptually distinct from sectoral GDP analysis.

By contrast, Table 3 —based on sectoral GDP at constant prices— shows the contribution of each sector to annual GDP variation between 1994 and 2024, allowing an assessment of how much each sector contributes to aggregate growth. These two approaches are not redundant but complementary: the first explains how each sector grows; the second explains how much each sector contributes to overall GDP growth.

Table 2 – Contribution of Production Factors to Mexico's Economic Growth, Average 1991–2024. KLEMS Model by Sectors and Subsectors

Sectors / Concept	Production Value	Total Capital Services	a ITC Capital Services	b Non-ITC Capital Services	Total Labor Services	Energy	Materials	Services	Factors Contribution	Total Factor Productivity
Total Economy	**2.29**	**1.46**	**0.13**	**1.32**	**0.25**	**0.05**	**0.82**	**0.22**	**2.80**	**-0.51**
Primary Sector	**1.77**	**-0.61**	**0.01**	**-0.62**	**0.09**	**0.04**	**0.58**	**0.03**	**0.12**	**1.65**
Sector 11: Agriculture, Animal Breeding and Production, Forestry, Fishing and Hunting	1.77	-0.61	0.01	-0.62	0.09	0.04	0.58	0.03	0.12	1.65
Secondary Sector	**2.03**	**0.80**	**0.07**	**0.73**	**0.09**	**0.03**	**1.44**	**0.04**	**2.40**	**-0.37**
Sector 21: Mining	-0.02	2.60	0.15	2.45	0.03	-0.02	0.03	-0.05	2.60	-2.62
Sector 22: Electric Power Generation, Transmission and Distribution; Water and Gas Supply through Pipelines to the Final Consumer	2.60	1.48	0.13	1.35	0.36	0.67	0.29	0.17	2.97	-0.38
Sector 23: Construction	1.93	1.02	0.38	0.64	0.40	0.05	0.69	0.28	2.44	-0.52
Sectors 31–33: Manufacturing Industries	2.34	0.50	0.05	0.46	0.06	0.02	1.83	-0.01	2.40	-0.05
Tertiary Sector	**2.66**	**2.09**	**0.23**	**1.86**	**0.45**	**0.10**	**0.18**	**0.45**	**3.26**	**-0.60**
Sectors 43–46: Wholesale and Retail Trade	3.12	2.64	0.29	2.36	0.42	0.10	0.11	0.45	3.73	-0.60
Sectors 48–49: Transportation, Warehousing, and Postal Services	3.02	0.79	0.08	0.70	0.41	0.45	0.35	0.35	2.35	0.67
Sector 51: Mass Media Information	4.65	1.34	0.36	0.98	0.25	0.07	0.54	0.91	3.11	1.53
Sector 52: Financial and Insurance Services	5.81	3.42	1.55	1.87	0.63	0.01	0.23	1.52	5.81	0.00
Sectors 53–55: Real Estate and Rental and Leasing of Tangible and Intangible Assets; Corporate Management	2.89	2.00	-0.18	2.17	0.16	0.01	0.10	0.24	2.50	0.39
Sector 54: Professional, Scientific, and Technical Services	3.30	1.51	0.06	1.45	1.15	0.08	0.49	0.44	3.67	-0.37
Sector 56: Business Support Services and Waste Management and Remediation Services	0.54	1.61	0.19	1.42	1.25	0.03	0.18	0.22	3.29	-2.75
Sector 61: Educational Services	1.40	0.54	0.06	0.47	0.99	0.05	0.16	0.47	2.21	-0.81
Sector 62: Health Care and Social Assistance	1.82	0.59	0.07	0.52	1.10	0.00	0.19	0.40	2.27	-0.45
Sector 71: Arts, Entertainment, and Recreation Services	1.25	0.74	0.20	0.54	0.16	0.01	0.02	0.18	1.11	0.15
Sector 72: Accommodation and Food Services	4.30	0.57	0.01	0.56	0.21	0.05	1.05	0.53	2.42	1.89
Sector 81: Other Services (except Government Activities)	1.62	1.76	0.55	1.21	0.60	0.02	0.29	0.12	2.79	-1.16
Sector 93: Legislative, Governmental, Judicial, and International and Extraterritorial Organizations	2.10	0.05	0.00	0.05	1.34	0.09	0.17	1.19	2.83	-0.73

Notes: *[a]Information Technology and Communications (ITC), [b]Non-Information Technology and Communnications (non-ITC), Revised data from 1991 to 2023; preliminary data for 2024.*

Source*: INEGI. System of National Accounts of Mexico. Total Factor Productivity – KLEMS Model.*

Table 3 – Sectoral Contributions to GDP Growth, 1994–2024

	Average 1994 - 2024
Gross Domestic Product (GDP)	2.03
Net taxes on products	0.11
Gross Value Added	**1.92**
Primary sector	**0.06**
Sector 11: Agriculture, Animal Breeding and Production, Forestry, Fishing and Hunting	0.06
Secondary sector	**0.55**
Sector 21: Mining	0.00
Sector 22: Electric Power Generation, Transmission and Distribution; Water and Gas Supply through Pipelines to the Final Consumer	0.03
Sector 23: Construction	0.09
Sectors 31–33: Manufacturing Industries	0.43
Tertiary sector	**1.31**
Sector 43: Wholesale Trade	0.26
Sector 46: Retail Trade	0.24
Sectors 48–49: Transportation, Warehousing, and Postal Services	0.19
Sector 51: Mass Media Information	0.06
Sector 52: Financial and Insurance Services	0.13
Sector 53–55: Real Estate and Rental and Leasing of Tangible and Intangible Assets	0.22
Sector 54: Professional, Scientific, and Technical Services	0.05
Sector 55: Corporate Management	0.02
Sector 56: Business Support Services and Waste Management and Remediation Services	-0.02
Sector 61: Educational Services	0.05
Sector 62: Health Care and Social Assistance	0.04
Sector 71: Arts, Entertainment, and Recreation Services	0.00
Sector 72: Accommodation and Food Services	0.01
Sector 81: Other Services (except Government Activities)	0.03
Sector 93: Legislative, Governmental, Judicial, and International and Extraterritorial Organizations	0.03

***Source**: INEGI. System of National Accounts of Mexico.*

3.2 Aggregate Overview of Sectoral Growth (1994–2024)

Table 3 shows that between 1994 and 2024, average annual GDP growth amounted to 2.03 percent, of which 1.92 percentage points came from gross value added and 0.11 percentage points from net taxes on products.

From a sectoral perspective:

- The tertiary sector accounted for 1.31 percentage points of average growth, equivalent to nearly two-thirds of total growth.
- The secondary sector contributed 0.55 percentage points.
- The primary sector contributed only 0.06 percentage points.

This distribution reflects a process of growth-driven tertiarization, with a relatively smaller contribution from industry and a marginal contribution from the primary sector.

3.3 Primary Sector: High Productivity, Low Incidence on Growth

According to Table 2, the primary sector recorded an average output growth rate of 1.77 percent, accompanied by a positive TFP contribution of 1.65 percentage points—the strongest productivity performance among the major sectors.

However, its impact on aggregate growth was limited: the sector contributed only 0.06 percentage points to GDP growth between 1994 and 2024 (Table 3), reflecting its relatively small share in the productive structure. This contrast illustrates a first structural tension: the most productive sectors are not those that account for aggregate growth.

3.4 Secondary Sector: Industrial Growth without Sustained Productivity Gains

The secondary sector grew at an average rate of 2.03 percent, driven by a factor contribution of 2.40 percentage points, but with negative TFP (–0.37) (Table 2). In terms of aggregate growth, the sector contributed 0.55 percentage points to GDP growth (Table 3).

Within the sector, significant contrasts emerge:

- Mining experienced a contraction in output (–0.02 percent) and a sharply negative TFP (–2.62), despite substantial capital accumulation.
- Manufacturing industries grew by 2.34 percent, but with TFP close to zero (–0.05), indicating essentially extensive growth.
- Construction exhibited negative TFP (–0.52) and a volatile contribution to aggregate growth.

Taken together, the industrial sector has not functioned as a productivity engine, limiting its ability to drive long-term potential growth.

3.5 Tertiary Sector: Main Driver of Growth and of Productive Weakness

The tertiary sector was the main contributor to economic growth, accounting for 1.31 percentage points of average GDP growth between 1994 and 2024 (Table 3). However, this

dynamism did not translate into efficiency gains: the sector's TFP was negative (–0.60), implying that its expansion was entirely explained by factor accumulation (Table 2).

Subsectors with the largest contribution to aggregate growth include:

- Wholesale and retail trade (43–46): 0.50 percentage points, with negative TFP (–0.60).
- Transportation, warehousing, and postal services (48–49): 0.19 percentage points, with positive TFP (0.67).
- Financial and insurance services (52): 0.13 percentage points, with high growth but zero TFP.
- Real estate and corporate services (53–55): 0.22 percentage points, with slightly positive TFP (0.39).

By contrast, several labor-intensive services—such as business support services (56), education (61), and other services (81)—exhibit clearly negative TFP despite their growing share of employment.

3.6 Growth Concentration and Sectoral Heterogeneity

Sectoral evidence shows a strong concentration of growth in a limited set of activities, mainly within the tertiary sector. This concentration coexists with high productive heterogeneity:

- Sectors that are dynamic in growth terms do not necessarily exhibit efficiency gains.
- Sectors with positive TFP contribute only marginally to aggregate growth.
- Resource reallocation toward more productive activities has been limited.

This pattern explains why economic growth does not translate into proportional increases in aggregate productivity, real wages, or economic complexity.

3.7 Synthesis: Sectoral Structure and Stagnant Productivity

The joint analysis of **Table 2** (sectoral KLEMS) and **Table 3** (sectoral GDP) yields four central conclusions:

1. Economic growth in Mexico has been led by the tertiary sector.
2. This growth has been predominantly extensive and associated with negative productivity.
3. Sectors with stronger productivity performance have a limited impact on aggregate growth.
4. The sectoral structure reinforces—rather than corrects—the weakness of aggregate productivity.

This sectoral diagnosis complements the aggregate KLEMS analysis presented in Section 2 and prepares the ground for examining how aggregate demand is transmitted through this productive structure, a topic developed in Section 4.

4. Aggregate Supply and Demand: The Incomplete Transmission of Growth

4.1 Analytical Scope and Link to the Previous Diagnosis

Sections 2 and 3 showed that economic growth in Mexico has been predominantly extensive, characterized by persistently negative Total Factor Productivity (TFP) and a sectoral structure concentrated in activities with low or null efficiency gains. To complete the macroeconomic diagnosis, it is necessary to analyze how growth has been composed from the perspective of aggregate supply and demand, and the extent to which this composition has reinforced the structural constraints previously identified.

Table 4 presents the annual contribution of the main components of aggregate supply and demand to economic growth between 1994 and 2024. This decomposition makes it possible to identify which engines have driven growth and how this impulse has been transmitted—or filtered—through the domestic productive apparatus.

4.2 Aggregate Supply Growth: Structural Dependence on Imports

Between 1994 and 2024, aggregate supply of goods and services grew at an average annual rate of 2.83 percent. This expansion was explained by:

- 1.59 percentage points originating from domestic gross domestic product, and
- 1.24 percentage points derived from imports of goods and services.

In relative terms, close to 44 percent of aggregate supply growth was explained by imports, revealing a high import elasticity in the Mexican economy. This pattern is consistent with a productive structure with limited capacity to absorb increases in domestic and external demand through domestic production. Reliance on imports as a source of supply expansion ultimately reflects the productive constraints documented in previous sections: low productivity, limited economic complexity, and weak integration of local productive chains.

4.3 Composition of Aggregate Demand: Predominance of Consumption and External Demand

Table 4 also shows that, on the demand side, average annual growth between 1994 and 2024 was driven by:

Table 4 – Contribution of Aggregate Supply and Demand Components to Economic Growth, 1994–2024

Concept	Gross Domestic Product	Imports of Goods and Services	AD / AS – Aggregate Demand and Supply	Private Consumption	Government Consumption	Gross Capital Formation	Exports of Goods and Services
1994	3.80	2.46	6.26	2.78	0.31	2.55	1.11
1995	-5.02	-2.65	-7.66	-3.26	-0.09	-7.00	2.99
1996	5.38	2.45	7.82	1.96	0.01	2.75	2.76
1997	6.13	3.49	9.62	4.02	0.54	2.51	1.50
1998	5.15	2.41	7.56	3.53	0.16	1.83	1.42
1999	2.27	2.09	4.36	2.18	0.49	0.80	1.18
2000	4.07	4.00	8.07	4.47	0.29	0.87	2.71
2001	-0.35	-0.06	-0.42	1.45	-0.23	-1.17	0.35
2002	-0.19	0.77	0.58	0.88	0.02	-0.09	0.53
2003	0.93	0.66	1.59	1.14	0.00	0.28	-0.35
2004	2.77	1.56	4.34	1.26	-0.07	1.05	1.10
2005	1.63	1.35	2.98	1.13	0.20	0.80	1.23
2006	3.68	1.81	5.49	2.37	0.21	1.58	1.74
2007	1.58	1.38	2.96	0.63	0.15	1.20	0.52
2008	0.71	0.94	1.65	0.51	0.22	1.17	-0.42
2009	-4.71	-4.12	-8.83	-3.62	0.23	-2.23	-2.00
2010	3.82	3.95	7.77	2.40	0.18	1.13	4.50
2011	2.58	1.56	4.14	2.34	0.27	1.55	2.07
2012	2.64	1.44	4.09	1.09	0.26	0.69	1.85
2013	0.63	0.94	1.57	1.28	0.07	-0.74	0.65
2014	1.84	1.58	3.42	0.99	0.19	0.42	1.85
2015	1.97	1.34	3.31	1.33	0.14	0.77	1.79
2016	1.28	0.70	1.98	0.95	0.15	0.10	0.81
2017	1.35	1.57	2.92	0.84	0.03	-0.09	0.85
2018	1.41	1.59	3.01	0.71	0.24	0.11	1.75
2019	-0.28	-0.32	-0.59	0.43	-0.14	-0.72	0.32
2020	-5.93	-3.48	-9.41	-4.76	-0.06	-2.69	-1.98
2021	4.34	4.44	8.78	4.06	-0.04	1.51	2.05
2022	2.60	2.59	5.18	2.32	0.16	1.09	2.70
2023	2.31	1.14	3.45	2.04	0.17	2.48	-2.14
2024	0.98	0.86	1.84	1.35	0.12	0.57	0.88
Average 1994-2024	**1.59**	**1.24**	**2.83**	**1.25**	**0.14**	**0.42**	**1.11**

***Source**: INEGI. System of National Accounts of Mexico.*

- 1.25 percentage points from private consumption,
- 0.14 percentage points from government consumption,

- 0.42 percentage points from gross fixed capital formation, and
- 1.11 percentage points from exports of goods and services.

Two features stand out clearly. First, private consumption and exports have been the main drivers of demand growth, while productive investment has made a relatively modest contribution. Second, export-led growth has not translated fully into a commensurate expansion of domestic value added, as evidenced by the large contribution of imports to aggregate supply growth.

4.4 Investment, Capacity Accumulation, and Limits to Potential Growth

The average contribution of gross fixed capital formation to economic growth (0.42 percentage points) is low relative to the requirements for expanding productive capacity and to the standards observed in economies that have achieved sustained convergence processes.

This investment performance is consistent with the results of the KLEMS model: although capital accumulation has taken place, it has been concentrated in assets with diminishing returns, limited incorporation of ICT technologies, and weak complementarity with human capital and organizational capabilities.

As a result, investment has failed to generate a proportional increase in potential growth or to reverse the negative productivity dynamics.

4.5 Import Elasticity and a Low Domestic Growth Multiplier

The combination of relatively dynamic aggregate demand and a high share of imports in supply expansion has significant macroeconomic implications. In an environment of real exchange rate appreciation and deep trade openness, a substantial fraction of demand impulses leaks abroad, reducing the domestic growth multiplier.

This pattern explains why episodes of expansion in consumption or exports do not translate into proportional increases in formal employment, productivity, or real wages. Growth generates economic activity, but does not consistently build domestic productive capabilities.

4.6 Consistency with Sectoral Structure and Productivity

The aggregate supply and demand analysis is fully consistent with the evidence presented in Sections 2 and 3:

- Growth driven by consumption and exports, with moderate investment, reinforces extensive factor accumulation.
- The high contribution of imports to supply growth is consistent with a concentrated sectoral structure and low aggregate productivity.

- The disconnect between dynamic demand and efficient domestic production contributes to persistently negative TFP.

Taken together, the Mexican economy faces a growth transmission problem: demand exists, but the productive apparatus fails to absorb it efficiently.

4.7 Central Implication for the 2026–2036 Growth Strategy

The analysis of aggregate supply and demand leads to a central conclusion: Mexico has grown with relatively dynamic aggregate demand, but with a productive structure incapable of transforming that growth into efficient domestic production, productive investment, and sustained productivity gains.

This pattern, which already imposed limits on growth in the past, becomes structurally more restrictive in an international environment characterized by geoeconomic fragmentation, greater trade selectivity, and explicit economic security criteria.

Correcting this disconnect requires an explicit strategy oriented toward raising productivity, strengthening productive investment, reducing import elasticity, and rebuilding the domestic growth multiplier. These dimensions constitute the starting point for identifying structural constraints and designing the sustainable growth strategy for the 2026–2036 period, developed in the following sections.

5. International Geoeconomic Environment

The analysis of aggregate supply, demand, and productive structure presented in the previous section becomes even more relevant when considered against the international geoeconomic environment that Mexico will face over the 2026–2036 period.

5.1 A Structural Shift in the Global Economy

The international environment confronting Mexico over this period is qualitatively different from that which prevailed during the decades of accelerated globalization and operates directly on the incentives, costs, and viability of national productive structures. The global economy is undergoing a phase of geoeconomic fragmentation, characterized by the increasing use of trade, financial, technological, and regulatory instruments for strategic purposes, as well as by a profound reorganization of global value chains (OECD, 2023; IMF, 2024).

This shift does not imply a generalized retreat from international trade, but rather a reconfiguration of its patterns. Cost-based efficiency has increasingly given way to considerations of resilience, economic security, reduction of strategic dependencies, logistical reliability, and geopolitical alignment. In this context, production location, access to critical

inputs, energy availability, and regulatory certainty acquire growing economic value (World Bank, 2024).

For open and highly integrated economies such as Mexico's, this new environment amplifies both opportunities and risks. International integration is no longer neutral from a growth perspective: trade and investment flows increasingly concentrate in countries capable of offering reliable productive capabilities, adequate infrastructure, and institutional frameworks aligned with the new strategic objectives of advanced economies. In the absence of these conditions, the growth pattern documented in the previous section faces tighter limits and rising economic costs.

5.2 The United States, National Security Strategy, and the Productive Reconfiguration of North America

The economic trajectory of the United States over the coming decade will be deeply shaped by an explicit shift in its strategic framework. The *National Security Strategy of the United States*, published in November 2025, redefines the relationship between national security, economic policy, and productive structure, establishing that industrial, energy, technological, and financial strength constitutes a central component of US national security (The White House, 2025).

Unlike earlier approaches centered on global efficiency, the current strategy explicitly prioritizes reindustrialization, control of critical supply chains, reduction of strategic dependencies, and the active use of trade, regulatory, and financial instruments to protect and rebuild the domestic productive base. In this framework, industrial policy ceases to be an exception and becomes a structural axis of both economic and security policy (The White House, 2025).

This strategic shift has direct implications for North America. US strategy identifies the region as a priority space for securing resilient supply chains, protecting critical infrastructure, combating transnational criminal organizations, and limiting the influence of extra-hemispheric actors in strategic sectors. As a result, a process of regional productive reordering is reinforced, aimed at bringing manufacturing, logistics, and technological processes closer to territories considered reliable from an economic security perspective (The White House, 2025).

For Mexico, this context reinforces its role as a strategic partner in North American productive integration, but also substantially raises the requirements for capturing sustained benefits. Investment attraction no longer depends solely on labor costs or geographic proximity, but on systemic capacity to provide sufficient energy, reliable infrastructure, regulatory compliance, economic security, and local productive linkages.

From a macroeconomic perspective, deeper integration under national security criteria can amplify trade and investment flows, but may also intensify sectoral and regional selectivity. Without domestic policies that strengthen the productive base and productivity, there is a risk

that Mexico consolidates a role as a logistics-and-assembly hub with limited impact on technological learning and aggregate productivity.

5.3 Reconfiguration of Mexico's Trade Policy and Tariff Adjustments toward China

Within this geoeconomic context, Mexico's trade policy has undergone a significant shift with the approval, in late 2025, of a set of substantial tariff adjustments applied to imports originating in China and other Asian countries with which Mexico does not maintain free trade agreements (Secretaría de Economía, 2025; Senado de la República, 2025).

The approved reforms modify the *Law of General Import and Export Taxes*, establishing tariffs of up to 50 percent on more than 1,400 tariff lines, including automobiles, auto parts, steel, aluminum, textiles, footwear, plastics, and various manufactured goods. These measures take effect beginning in 2026 and respond both to industrial protection objectives and to strategic considerations linked to regional integration and alignment with US trade policy (Senado de la República, 2025a, 2025b).

From an analytical perspective, these adjustments represent a structural change in the orientation of Mexico's trade policy, shifting from a predominantly liberal approach toward a selective and strategic one, consistent with the new environment of geoeconomic fragmentation. In the short term, tariffs may generate transition costs, particularly in sectors dependent on imported inputs. In the medium term, they open the possibility of reconfiguring productive linkages, incentivizing selective import substitution processes, and attracting investment aimed at supplying the regional market from Mexico (OECD, 2024).

However, international evidence shows that the benefits of such measures are not automatic. In the absence of domestic productive capabilities—infrastructure, energy, human capital, financing, and institutional certainty—tariffs can translate into higher production costs without generating sustained increases in productivity or economic complexity (Grossman & Helpman, 1995; Estevadeordal & Suominen, 2021).

5.4 Global Financial Conditions, Exchange Rate, and Capital Flows

The international financial environment is expected to remain characterized by relatively high interest rates, heightened risk aversion, and more selective capital allocation toward emerging economies (BIS, 2024; Federal Reserve, 2025). For Mexico, this environment has direct implications for the exchange rate, financing costs, and investment.

Interest rate differentials vis-à-vis the United States have contributed to peso appreciation and the attraction of short-term financial flows. While this has helped contain inflationary pressures, it has also stimulated imports and limited the impact of domestic demand on national production, reinforcing external leakage patterns of growth (Banco de México, 2024).

At the same time, financing costs constitute a significant constraint on private investment and public finances, particularly in an economy with low productivity and high sensitivity of debt service to interest rates. In this context, macroeconomic stability remains a necessary condition, but no longer a sufficient one: the quality of the institutional and productive environment becomes decisive for attracting long-term productive investment.

5.5 Energy, Energy Transition, and Systemic Competitiveness

The energy transition has become one of the main determinants of international competitiveness over the coming decade. The availability of sufficient, reliable, and competitively priced energy is now a critical factor in the location of industrial, logistics, and technological investments, particularly in electricity-intensive sectors and those facing increasing decarbonization commitments (IEA, 2024).

In a context of progressive electrification of productive processes, the capacity to expand generation—and especially electricity transmission—acquires strategic importance. Recent evidence suggests that energy constraints can become a direct brake on the materialization of nearshoring opportunities and the expansion of capital-intensive projects (OECD, 2024).

Public-sector budget constraints and the existing regulatory framework imply that public–private coordination will be key to preventing energy from becoming a structural bottleneck to growth. Beyond its direct cost impact, energy availability conditions both the sectoral and territorial location of growth.

5.6 Implications for Mexico over the 2026–2036 Horizon

The international geoeconomic environment configures a complex combination of opportunities and risks for Mexico. Strategic location, productive integration with North America, an existing industrial base, and macroeconomic stability constitute relevant assets. However, evidence shows that these assets alone do not guarantee sustained increases in growth or productivity (OECD, 2023; World Bank, 2024).

In the new global environment, countries that succeed in raising their potential growth are those capable of converting external opportunities into internal processes of productive learning, increasing economic complexity and reducing sectoral heterogeneity. For Mexico, this implies that the impact of nearshoring, tariff adjustments, and capital flows will depend critically on its ability to remove internal constraints: energy, economic security, institutional certainty, effective competition, and policies that facilitate technological diffusion.

In this sense, the international environment does not act as an exogenous determinant of growth, but rather as an amplifier of internal strengths and weaknesses. This conclusion links directly to the macroeconomic and sectoral diagnosis presented in previous sections and establishes the starting point for the analysis of structural constraints to growth, developed in the following section.

6. Structural Constraints to Economic Growth

6.1 From Symptoms to Binding Constraints

The macroeconomic diagnosis, the analysis of the sectoral structure of growth, and the assessment of the international geoeconomic environment converge on a central conclusion: Mexico's economic growth is constrained by the interaction of multiple structural frictions that, in the new context of geoeconomic fragmentation, have become increasingly binding—reinforcing a low-growth, low-productivity equilibrium characterized by high productive heterogeneity.

These constraints operate simultaneously on resource allocation, investment incentives, the adoption and diffusion of technology, and the State's capacity to coordinate productive transformation processes. In a more selective and strategic international environment, these internal frictions not only reduce efficiency, but also determine the country's very ability to integrate productively into new regional value chains.

While these constraints reinforce one another, the evidence suggests that resource misallocation, low economic complexity, energy constraints, and economic insecurity operate as particularly binding bottlenecks in the current context, conditioning the effectiveness of the broader policy mix.

6.2 Structural Informality and Resource Misallocation

Informality constitutes one of the most persistent constraints on economic growth in Mexico. Beyond its labor-market dimension, it reflects a complex set of fiscal, regulatory, and social policy incentives that fragment the economy into segments subject to very different rules, costs, and levels of protection.

This fragmentation induces resource misallocation, whereby less productive firms survive and expand, while more productive firms face barriers to scaling up, formalizing, or integrating into more complex value chains. Empirical evidence shows that such misallocation depresses aggregate productivity, limits investment in physical and human capital, and restricts the adoption of more advanced technologies. In this context, informality is not merely a consequence of low growth, but a mechanism that reproduces it by weakening incentives to innovate, formalize, and scale productive activities.

6.3 Low Economic Complexity and Limited Productive Diversification

A central long-term growth constraint is low economic complexity outside a narrow set of export-oriented sectors. While Mexico has developed sophisticated capabilities in certain manufacturing activities integrated into global value chains, these capabilities remain weakly connected to the rest of the productive system and are territorially concentrated.

The economic complexity literature shows that sustained growth depends on a country's ability to diversify into activities that are proximate in the product space, using existing capabilities as platforms for learning. In Mexico, this process has been fragmented, limiting the generation of productive linkages and the diffusion of productivity gains toward employment-intensive sectors.

As a result, growth tends to materialize in productive enclaves with limited spillovers to aggregate income, real wages, and regional development—a pattern consistent with the sectoral evidence presented earlier.

6.4 Innovation, Spillovers, and Private Underinvestment

Innovation is a fundamental driver of productivity and long-term growth. However, private investment in innovative activities is often below the socially optimal level due to knowledge spillovers, technological uncertainty, high upfront costs, and financial frictions.

In Mexico, these market failures are amplified by a fragmented innovation ecosystem, characterized by weak linkages between firms, universities, and research centers, as well as limited mechanisms for technological diffusion toward small and medium-sized enterprises.

The result is systematic underinvestment in innovation, constraining the country's ability to raise economic complexity, reduce productive heterogeneity, and sustain persistent increases in Total Factor Productivity.

6.5 Insecurity, Extortion, and Implicit Economic Costs

Insecurity and territorial control by organized crime represent a first-order economic constraint. Beyond their social consequences, violence and extortion operate as implicit taxes on firms and workers, increasing operating costs, compressing margins, and discouraging productive investment.

These costs disproportionately affect small and medium-sized enterprises and regions with weaker institutional capacity, deepening territorial disparities and limiting the expansion of formal productive activities. In addition, insecurity reduces labor mobility, weakens productive linkages, and raises the risk premium associated with long-term investment projects.

6.6 Market Power, Rent-Seeking, and Regulatory Distortions

The existence of market power in various sectors and the proliferation of regulatory distortions have constrained competition, innovation, and efficient resource reallocation. Complex regulatory frameworks, entry barriers, and poorly designed technical regulations can generate economic rents, foster regulatory capture, and discourage firm entry.

These distortions not only reduce microeconomic efficiency, but also undermine aggregate productivity by inhibiting firm selection dynamics and limiting the diffusion of best productive practices. Their effects tend to be particularly pronounced in services and non-tradable activities, where a significant share of economic growth and employment is concentrated.

6.7 Energy and Infrastructure Constraints

The availability of sufficient, reliable, and competitively priced energy is a fundamental enabler of modern growth. In a context of increasing electrification of productive processes, the capacity to expand generation—and especially electricity transmission—is critical for the location and expansion of investment.

Public-sector budget constraints, combined with existing participation rules in the energy sector, imply that the expansion of energy infrastructure faces structural limitations. If not addressed in a timely manner, energy constraints can become a binding bottleneck, particularly in regions with high productive potential.

6.8 Financial Conditions and Fiscal Constraints

High interest rates and financing costs constitute a cross-cutting constraint on growth. For the private sector, they raise investment hurdles and reduce project viability. For the public sector, they increase debt service costs and reduce fiscal space available for investment in infrastructure, energy, security, and regional development.

The structure of public debt—characterized by high sensitivity to interest rates—amplifies this effect and reinforces the need to prioritize public resources toward projects with high productive impact and strong capacity to crowd in private investment.

6.9 Institutional Uncertainty and Economic Expectations

Periods of deep institutional change are often associated with adjustments in economic agents' expectations. When rules governing dispute resolution, contract enforcement, and the protection of rights are perceived as uncertain, firms and investors tend to incorporate higher risk premia or postpone investment decisions.

This phenomenon, documented in both advanced and emerging economies, becomes particularly relevant in a context of intense international competition for long-term productive investment. Legal certainty and institutional predictability thus emerge as key economic assets.

6.10 Synthesis of Structural Constraints

Mexico's structural constraints to economic growth can be synthesized into six interrelated dimensions:

1. Structural informality and resource misallocation.
2. Low economic complexity and limited productive diversification.
3. Underinvestment in innovation and technological diffusion.
4. Insecurity and extortion as implicit economic costs.
5. Market power and regulatory distortions.
6. Energy, financial, and institutional constraints.

These constraints explain both the negative performance of Total Factor Productivity and the sectoral concentration of economic growth documented in previous sections. In the current geoeconomic context, their persistence not only limits potential growth, but also reduces the country's capacity to capture external opportunities, amplifies the costs of international shocks, and narrows the policy space available to economic authorities.

The following section presents a growth strategy aimed at removing these constraints in a sequenced manner, raising productivity, economic complexity, and sustainable well-being over the 2026–2036 horizon.

7. Growth and Productive Transformation Strategy, 2026–2036

7.1 General Approach: Growth as a Process of Productive Learning

The growth strategy toward 2036 is grounded in a central premise: sustained growth is not an automatic outcome of macroeconomic stability or factor accumulation, but rather a continuous process of productive learning. This strategy responds directly to the structural constraints identified in the previous section and seeks to remove them in a sequenced and coherent manner.

In this context, the strategic objective is not to maximize short-term growth, but to persistently raise productivity and transform the productive structure in a way that is consistent with objectives of well-being, social inclusion, and regional development. The evidence presented in previous sections shows that, absent such transformation, growth tends to concentrate sectorally and territorially, with limited effects on real wages and broad-based prosperity.

7.2 Guiding Principles of the Strategy

Four principles guide the 2026–2036 growth and productive transformation strategy:

Productivity as a Condition for Sustainability

Social well-being and the expansion of rights require a dynamic productive base. Without sustained increases in Total Factor Productivity, potential growth remains constrained and fiscal space progressively erodes.

Economic Complexity and Related Diversification

Growth must be supported by expansion into more sophisticated productive activities that are proximate to existing capabilities. This approach avoids discretionary "picking winners" and favors gradual, cumulative learning processes.

The State as Coordinator of the Discovery Process

The role of the State is to reduce coordination failures, provide public goods, share early-stage risks, and correct distortions that inhibit innovation and productive investment. The strategy does not replace the private sector, but rather creates conditions for its efficient expansion.

Territorial Approach and Long-Term Horizon

Productive transformation occurs in territory and requires time horizons consistent with investment in infrastructure, human capital, and institutions. The strategy explicitly recognizes regional heterogeneity and seeks to reduce it gradually and sustainably.

7.3 From Accumulation to Efficiency: Making TFP an Explicit Objective

The KLEMS diagnosis and sectoral evidence show that between 1991 and 2024, Total Factor Productivity subtracted an average of 0.51 percentage points from economic growth. Reversing this dynamic must become an explicit and verifiable objective of economic policy, given TFP's central role in long-term growth.

Raising TFP requires simultaneous action along four interrelated channels:

- Efficient resource reallocation, by strengthening competition, reducing structural informality, and facilitating the scaling of more productive firms.
- Technological diffusion, by promoting the adoption of existing best practices and technologies, particularly in employment-intensive sectors.
- Innovation, by fostering the creation of new productive capabilities and diversification toward higher economic complexity.
- Reduction of systemic costs, associated with insecurity, energy, financing, and regulation.

The 2026–2036 strategy is designed to act in a coordinated manner across these channels.

7.4 Innovation and Productive Development as the Strategic Core

Innovation policy constitutes the core axis of productive transformation. International evidence shows that innovation tends to be underprovided by markets due to knowledge spillovers, technological uncertainty, and financial frictions, justifying carefully designed public intervention.

The strategy prioritizes instruments with strong empirical support:

- R&D incentives, including tax credits and competitive subsidies targeted at scalable projects.
- Technology diffusion policies, particularly for small and medium-sized enterprises, to close productivity gaps.
- Human capital and talent development, with emphasis on technical training, STEM disciplines, and university–industry linkages.
- Risk financing, supported by development banks, for innovative projects with high social returns and elevated initial risk.

Institutional design must minimize capture risks, ensure transparency, and allow continuous evaluation of results.

7.5 Economic Complexity and Strategic Use of Nearshoring

The growth strategy explicitly aims to raise Mexico's level of economic complexity. This requires identifying productive activities that are close to existing capabilities and facilitating their development through complementary public goods, infrastructure, talent, and financing.

Nearshoring offers an exceptional window to accelerate this process, provided it is used as a platform for productive learning rather than merely the expansion of enclaves. This requires:

- effective integration of local suppliers,
- development of technical and logistical capabilities, and
- mechanisms that connect foreign investment with domestic productive ecosystems.

7.6 Development Hubs as Territorial Platforms for Learning

Development hubs should be conceived as territorial platforms for productive transformation, not as isolated projects. Their objective is to concentrate, in a coordinated manner:

- logistics and digital infrastructure,
- sufficient and reliable energy,
- economic security,

- human capital,
- financing and business services.

This approach reduces coordination costs, accelerates learning processes, and facilitates productive diversification in regions with underutilized potential, contributing to a gradual reduction of regional disparities.

7.7 Energy and Infrastructure as Enablers of Growth

Energy availability has become a critical constraint on productive investment. The strategy prioritizes the expansion of generation capacity and, especially, electricity transmission, using schemes that mobilize private investment in a manner consistent with public objectives.

Given limited fiscal space, public investment should focus on high-impact enabling projects capable of crowding in private investment and removing structural bottlenecks that constrain the sectoral and territorial location of growth.

7.8 conomic Security, Institutional Certainty, and Development Financing

Reducing insecurity and extortion is a necessary condition for productive transformation. No industrial, innovation, or regional development policy is viable without economic security and institutional certainty.

At the same time, in an environment of high interest rates, the strategy incorporates instruments to mitigate financial constraints on capital-intensive productive projects with high social returns. Development banks and guarantee mechanisms play a key role in aligning financing with productive priorities while preserving macroeconomic stability.

7.9 Temporal Sequencing of the Strategy (2026–2036)

The strategy recognizes that productive transformation requires a clear and realistic sequence:

- **2026–2028:** removal of critical bottlenecks (energy, economic security, institutional certainty).
- **2028–2032:** scaling of innovation policies, development hubs, and productive linkages.
- **2032–2036:** consolidation of sustained gains in productivity, economic complexity, and real wages.

This sequencing is consistent with the real timelines of investment, learning, and institutional transformation.

7.10 Expected Outcomes and Monitoring Metrics

Consistent implementation of the strategy would make it possible to:

- raise potential growth toward 3.5–4.0 percent per year,
- reverse the negative contribution of TFP,
- increase economic complexity,
- reduce informality and productive heterogeneity, and
- strengthen the fiscal and social sustainability of development.

Monitoring should rely on clear and verifiable metrics, enabling continuous evaluation of whether the strategy succeeds in converting external opportunities into sustained gains in productivity, economic complexity, and well-being in an increasingly selective international environment.

8. Economic Growth Scenarios, 2026–2036

8.1 Purpose and Approach of the Scenario Analysis

The growth scenarios presented below are not point forecasts, but conditional trajectories that illustrate how different combinations of policy decisions, removal of structural constraints, and external conditions can affect Mexico's economic performance over the 2026–2036 horizon.

The objective of the exercise is to explicitly link the diagnosis and the strategy with plausible macroeconomic outcomes, showing how varying degrees of removal of the identified structural constraints and of strategy implementation translate into differentiated growth paths. The analysis is empirically anchored in growth-accounting evidence (KLEMS), the sectoral structure of GDP, the composition of aggregate supply and demand, and international experience. In this sense, the scenarios allow an assessment of the cost of inaction and the potential economic returns of a consistent productive transformation strategy.

All scenarios share three common assumptions:

- Macroeconomic stability as a necessary, though not sufficient, condition for growth.
- Deep integration with North America as the main external anchor.
- Persistence of a more fragmented international environment, characterized by more selective investment flows and a greater weight of geoeconomic considerations.

8.2 Baseline Scenario: Continuity with Gradual Adjustments

Average GDP growth: 2.3–2.6 percent per year

TFP contribution: close to 0 percent (a marginal improvement relative to the historical –0.51 percentage points)

In the baseline scenario, Mexico maintains macroeconomic stability and makes gradual and incomplete progress in removing structural constraints. Private investment partially recovers as external uncertainty recedes, but bottlenecks in energy, economic security, and regulation persist, limiting the transmission of demand and investment into sustained productivity gains.

Innovation and productive development policies expand, but with limited scale and weak territorial coordination. The sectoral structure of growth changes little: export-oriented sectors continue to lead, while traditional services and construction show modest improvements. Informality declines slowly, and technological diffusion remains uneven.

In this scenario, growth is sufficient to sustain social progress and macroeconomic stability, but it does not decisively alter the productivity trajectory or regional disparities. TFP ceases to exhibit a persistently negative contribution, but remains close to zero and does not become an active engine of growth.

8.3 Productive Transformation Scenario: Consistent Strategy Implementation

Average GDP growth: 3.5–4.0 percent per year

TFP contribution: +0.8 to +1.2 percentage points on average

This scenario assumes consistent, sequenced, and sustained implementation of the 2026–2036 growth and productive transformation strategy. In the initial phase, critical bottlenecks—energy, economic security, and institutional certainty—are removed, reducing perceived risks and extending investment horizons.

In the intermediate phase, innovation policies, technological diffusion, and territorial development hubs are scaled up. Private investment responds strongly (crowding-in), supported by enabling infrastructure, financing aligned with productive objectives, and clear rules. Nearshoring becomes a catalyst for productive learning and rising economic complexity, moving beyond the expansion of export enclaves and allowing growth to translate into sustained efficiency gains and diffusion.

In the final phase, productivity gains consolidate and spread to employment-intensive sectors. Total Factor Productivity reverses its historical negative contribution and becomes the primary engine of growth, enabling sustained increases in real wages, a significant reduction in informality, and greater fiscal and social sustainability.

8.4 Stagnation Scenario: Persistence of Structural Constraints

Average GDP growth: 1.5–2.0 percent per year

TFP contribution: negative or zero

The stagnation scenario materializes if the identified structural constraints persist or intensify. Private investment remains subdued due to institutional uncertainty, high financing costs, and energy bottlenecks. Insecurity continues to operate as a high implicit tax on productive activity.

Although the international environment continues to offer opportunities, Mexico fails to capture them in a sustained manner. Growth concentrates in a few sectors and regions, informality remains high, and fiscal margins narrow progressively. In this scenario, well-being objectives face increasingly binding economic limits, and growth becomes more vulnerable to external shocks, with rising costs in terms of real wages, informality, and fiscal sustainability.

8.5 Synthetic Comparison of Scenarios

Table 5 summarizes the comparison of economic growth scenarios for the 2026–2036 decade.

Table 5 – Comparison of Economic Growth Scenarios, 2026–2036

Key Dimension	Stagnation	Baseline	Transformation
GDP Growth	1.5–2.0%	2.3–2.6%	3.5–4.0%
TFP Contribution	≤ 0%	~0%	+0.8–1.2 pp
Private Investment	Low	Moderate	High (crowding-in)
Economic Complexity	Stagnant	Marginal improvement	Sustained increase
Informality	High	Slow reduction	Significant reduction
Regional Gaps	Widen	Persist	Gradually narrow

***Source**: Bank & Finance.*

8.6 Risks and Sensitivity Factors

The scenarios are subject to relevant risks that may alter their trajectories:

- External: increased trade fragmentation, global financial shocks, and a slowdown in the United States.
- Domestic: delays in energy projects, persistence of insecurity, and weaknesses in institutional implementation capacity.
- Financial: prolonged high interest rates and constraints on productive credit.

The differences between scenarios do not hinge on a single factor, but on the coherence, sequencing, and persistence of strategy implementation.

8.7 Central Implication for Public Policy

The main lesson from the scenario exercise is clear: growth is not exogenous. Mexico can remain on a path of moderate growth or transition toward a trajectory of greater prosperity. The difference lies in its capacity to remove structural constraints and convert external opportunities into internal productive capabilities, raising productivity and economic complexity on a sustained basis.

This section sets the stage for the closing of the document, where these trajectories are translated into an executive roadmap with priorities, sequencing, and monitoring metrics.

9. Conclusions and Executive Roadmap

9.1 Conclusions

The analysis developed throughout this document leads to a central and robust conclusion: the main challenge facing Mexico's economic growth is structural and is directly associated with low productivity and an incomplete transformation of its productive structure.

The empirical evidence is clear. Between 1991 and 2024, Mexico's average economic growth was 2.29 percent per year, driven almost exclusively by the accumulation of capital, labor, and intermediate inputs. By contrast, Total Factor Productivity (TFP) subtracted an average of 0.51 percentage points from growth, reflecting a persistent absence of improvements in efficiency, productive learning, and technological diffusion. This pattern imposes structural limits on potential growth, real wages, and the sustainability of well-being objectives.

The sectoral and territorial decomposition of growth confirms this diagnosis. A limited set of dynamic sectors explains a large share of aggregate growth, while broad segments of the economy—where employment is concentrated—remain stagnant and characterized by low productivity. This heterogeneity helps explain the persistence of informality, the weak transmission of growth to household income, and enduring regional disparities.

The international geoeconomic environment reinforces the urgency to act. The reorganization of global value chains, the energy transition, and the increasing selectivity of international investment open relevant opportunities for Mexico, but they also raise the standards required to capture them. In this context, macroeconomic stability remains a necessary condition, but it is no longer sufficient to ensure sustained growth. Systemic competitiveness increasingly depends on energy availability, economic security, institutional certainty, innovation, and the capacity to generate local productive linkages.

The 2026–2036 scenario analysis shows that future growth is not exogenous, but rather the direct result of the degree to which structural constraints are removed and of the consistency

with which the strategy is implemented. Mexico can remain on a path of moderate growth, with social progress constrained by economic limitations, or transition toward a trajectory of greater prosperity based on productivity, economic complexity, and innovation. The difference between these paths does not lie in declared objectives, but in the consistency, sequencing, and quality of policy implementation.

This document does not propose a change in objectives, but rather an economic architecture that makes the objectives already defined in the national development project viable, financeable, and sustainable, by extending their time horizon and strengthening their implementation mechanisms.

9.2 Executive Roadmap for 2026–2036

The growth and productive transformation strategy requires a clear, realistic, and sequenced roadmap that translates diagnosis and strategy into concrete actions. The priority axes of action are presented below, organized by time phases and guided by executive implementation criteria.

Phase I: Removal of Critical Bottlenecks (2026–2028)

Objective: enable productive investment and reduce systemic costs.

Key priorities:

- Energy and enabling infrastructure: accelerate the expansion of generation and, especially, electricity transmission through schemes that mobilize private investment consistent with public objectives.
- Economic security: reduce extortion and violence in productive regions and strategic logistics corridors, with a focus on small and medium-sized enterprises.
- Institutional certainty: strengthen regulatory predictability and dispute-resolution capacity, reducing perceived risk premia.
- Development finance: orient development banks and guarantee mechanisms toward projects with high productive impact and strong capacity to crowd in private investment.

Progress indicators: induced private investment, energy projects enabled, reductions in logistics costs, and observable improvements in economic security conditions.

Phase II: Productive Scaling and Innovation (2028–2032)

Objective: raise productivity and economic complexity.

Key priorities:

- Evidence-based innovation policy: expansion of R&D incentives, technological diffusion, and risk financing, with continuous evaluation of results.

- Development hubs: consolidation of territorial platforms integrating infrastructure, energy, security, talent, and firms.
- Productive linkages and nearshoring: integration of local suppliers into regional value chains as a mechanism for productive learning.
- Human capital: strengthening technical training and university–industry linkages aligned with regional productive needs.

Progress indicators: sectoral productivity, technology adoption, SME participation in value chains, and economic complexity.

Phase III: Consolidation of Productivity and Sustainable Well-Being (2032–2036)

Objective: make gains in productivity, real wages, and regional development persistent.

Key priorities:

- Broad diffusion of productive capabilities: reduction of sectoral and territorial heterogeneity.
- Sustainable formalization: alignment of labor, fiscal, and social incentives with productivity and firm growth.
- Fiscal and social sustainability: expansion of the productive base to durably finance well-being, infrastructure, and public services.
- Continuous evaluation and adjustment: policy correction based on observable results.

Progress indicators: TFP growth, real wages, reductions in informality, and narrowing regional gaps.

9.3 Monitoring and Governance

For the roadmap to be effective, four cross-cutting criteria are required:

1. Prioritize productive impact over dispersion of resources.
2. Coordinate key policies (energy, innovation, security, financing) under a shared logic of productivity and productive learning.
3. Systematically evaluate and adjust policies using clear metrics and transparency.
4. Maintain a State-level vision with a long-term horizon beyond administrative cycles.

9.4 Final Consideration

Mexico has the assets required to substantially raise its economic growth over the coming decade. Turning these assets into sustained prosperity requires a shift from growth based on accumulation to growth based on productivity, economic complexity, and innovation.

The challenge is not technical, but one of coordination, sequencing, and execution. The alternative is clear: persist in moderate growth with structural gaps, or advance toward a trajectory of sustained prosperity grounded in productivity and productive learning.

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11. Apendix: KLEMS Model

KLEMS model's production function is given by:

$$f(x) = (K, L, M, E, S)$$

where where the following inputs are combined: K: capital, L: human resources (labor), E: energy inputs, M: materials, and S: services.

The growth rate, Δ, of Total Factor Productivity (TFP), A, is defined as the growth of output value, Y, minus the contribution of production factors:

$$\Delta A = \Delta Y - \alpha_K \Delta K - \beta_L \Delta L - \gamma_E \Delta E - \varepsilon_M \Delta M - \theta_S \Delta S$$

where α, β, γ, ε, θ represent the weights of each variable according to its share in total production..

According to data from INEGI, between 1991 and 2024 the average growth rate of the Mexican economy was $\Delta Y = 2.29\ \%$, with factor contributions given by:

$\Delta K_{TIC} = 0.13$, $\Delta K_{no-TIC} = 1.32$, $\Delta L = 0.25$, $\Delta E = 0.05$, $\Delta M = 0.82$, $\Delta S = 0.22$, $\Delta A = -0.51$.