

Current State of Mexico's Supply Chain and the Challenges and Responses for Taiwan's Investment Deployment

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Changes in Foreign Investment in Mexico

Foreign direct investment (FDI) in Mexico grew from USD 34 billion in 2017 to USD 36.1 billion in 2023. Notably, investments from Mainland China have seen significant growth, reaching a peak of USD 569 million in 2022. In response to factors such as reducing high tariff pressure and meeting brand manufacturer requirements, Taiwanese companies like Foxconn, Quanta, and Wistron have relocated their production capacities from Mainland China to Mexico. Taiwanese investments in Mexico hit a historic high of USD 78.06 million in 2022.

Changes in Mexico's Import and Export Markets

Mainland China has long been the largest source of U.S. imports. However, following the imposition of Section 301 punitive tariffs, exports from Mainland China to the U.S. have significantly declined. In 2023, the European Union and Mexico surpassed Mainland China to become the top two import sources for the United States. Despite this, re-exports from Mainland China through third-party countries to the U.S. have increased, shifting U.S. dependence on Mainland China from direct to indirect. Between 2018 and 2023, Mexico's imports from Mainland China grew significantly, especially in intermediate goods for traditional industries, transportation, and electrical machinery. Taiwan's exports to Mexico have also grown rapidly in recent years, primarily in electronic products.

Shifts in Taiwan's Export Structure and Supply Chain Developments

Taiwan's export structure has undergone a transformation characterized by "regional diversification and industrial concentration." Previously concentrated in Mainland China, Taiwan's exports are now focused on three key markets: Mainland China, the U.S., and ASEAN countries. Notably, in the first half of 2024, the U.S. replaced ASEAN as Taiwan's second-largest export market. Supply chain development also shows a trend of diversified and dispersed layouts, with ASEAN being the top choice for Taiwanese companies expanding production lines, followed by India and Mexico. Furthermore, the trend of localized supply chains has become more

prominent, with nearshoring to consumer markets gaining traction. Taiwanese investments in Mexico have increased by nearly 1.5 times.

Challenges for Taiwanese Companies in Mexico

The U.S.'s containment strategy against Mainland China is expected to become more comprehensive in the future, covering advanced industries and areas affecting U.S. trade interests. President-elect Donald Trump has also repeatedly proposed high tariffs on vehicles exported from Mexico to the U.S., which warrants attention for future developments. Additionally, concerns have emerged over "country-of-origin laundering," where products manufactured in Mainland China are merely transshipped to third-party countries without substantial processing. Such practices are likely to increase and are a key focus of U.S. scrutiny.

Taiwan's Strategic Responses

1. Addressing the Impacts of Trade Structure Transformation

With Taiwan's increasing trade dependence on the U.S., its trade surplus with the U.S. has also grown. Taiwan should mitigate the potential impact of U.S. trade protection measures while highlighting the complementary nature of Taiwan-U.S. trade from the perspective of industrial division of labor.

2. Strengthening Domestic Policies for Supply Chain Resilience

Taiwan should expand its domestic production capacity, advance next-generation technology development, and preserve the irreplaceability of its products. It is also necessary to address bottlenecks such as infrastructure, power supply, and talent shortages. Proactively providing supply chain-related information to companies can enhance the completeness of information sources. Tailored industrial development policies and supply chain strategies should also be developed for different industries.

3. Enhancing Supply Chain Resilience through International Cooperation and Alliances

With the current favorable U.S.-Taiwan relations and close collaboration, Taiwan should actively seek agreements with the U.S. to strengthen supply chain resilience. This opportunity could also leverage Taiwan's manufacturing advantages to promote cooperation with other countries and pursue strategic alliances.

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