Foreign Direct Investment

in Mexico 2015-2017

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Abstract

This paper explains and analyzes the behavior of Foreign Direct Investment in Mexico in the last three years, as well as its impact on the development and growth of the national economy, through the strengthening of productive infrastructure by the opening of important sectors of the economy that were previously closed to foreign investment and that currently represents a great opportunity for foreign investors.

Keyword: Foreign Direct Investment, Inversor, Gross Domestic Product, International Monetary Fund, World Bank

I. Introduction

Nowadays emerging economies are increasingly dependent on Foreign Direct Investment (FDI), because it is the main ingredient that helps accelerate and boost the economic development of a receiving nation, through financing by investors from other countries, promoting national savings, stimulating technology transfers that influences productive modernization through modern management systems. Therefore, it is important to review and improve strategies to attract FDI to Mexico, aimed at renewing the economy and diversifying production, thus improving local industrial competitiveness combined with skills that strengthen entrepreneurship to improve each day in all sectors of the economy.
The deceleration that has happened worldwide has had a direct impact on the decisions of foreign investors to settle in a country (emerging economies), which has had an impact on the fact that these decisions are moving towards developed economies, this is mostly of the cases refers to the economic and social stability that prevail in these countries, generating more confidence in foreign investors and therefore generating a higher return than in an emerging economy.

According to statistics from official international organizations such as ECLAC, the World Bank and the IMF, the Mexican economy is the second biggest in Latin America in terms of capturing of FDI, overcome only by the Brazilian economy, due to the policies and reforms promoted by the federal government that allow growth and development of the economy, giving way to important economic sectors such as: energy, transport, telecommunications, etc., where previously there was no access to investment by foreigners and that the vision of free market policies are generating new expectations so that more and more the Mexican economy is targeted to invest.

For all the above and according to the statistics of these organizations, Mexico continues to grow at a rate of 2.1% annual average, which results in a country with solid reforms that make prevail in a healthy economic stability.

II. Foreign Direct Investment in México 2015

The decline in FDI worldwide in 2014 was marked by 7%, because there was a large difference between the flows sent to developing countries and developed economies. The developed economies had a 14% drop in FDI, this was mainly caused by the disinvestment suffered by North America (United States) of 54%, causing the flow of investment sent to Latin America and the Caribbean to decrease by 16%, since according to the Gross Domestic Product, the investments they received were 2.6%, being an average lower than the long-term received for the region, taking into account that this figure varies significantly from one country to another. In this field the biggest economies in Latin America that are Brazil and Mexico received 1.5% and 2.0% of their GDP.

Mexico was the country that suffered most in the fall of FDI, since it only received 22,795 million dollars, down 49%, caused by several exceptional factors that influenced this change and that was reflected in the received in 2013, where FDI had a higher rate thanks to the acquisition of the Grupo Modelo brewery by a European company for a value of 13,249 million dollars. It is worth mentioning that it also suffered a divestment when the American company AT & T sold its shares to the Mexican giant América Móvil for a price of 5,570 million dollars. Brazil continues to be the biggest recipient of FDI in the region, even though its inflows decreased by 2% to 62,495 million dollars.
Foreign direct investment in Mexico 2015-2017

As can be seen in Figure 1, in Latin America the largest decrease in FDI for 2014 was that suffered by Mexico with 49% less than the previous year and for the other economies, they presented not so considerable losses compared to the previous year, only Chile and Colombia were the countries that presented a more homogenous change in terms of FDI refers [1].

Main countries of Latin America FDI collectors, 2013-2014 (billions of dollars)

![Graph showing FDI collectors in Latin America from 2013 to 2014](image)

Source: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de estimaciones y cifras oficiales a 18 de mayo de 2015

In contrast to all of the above, Mexico was the economy that received the highest percentage of FDI in technology sectors, followed by Brazil, mainly due to large investments in the automotive sector (medium-high technology), which are having a transforming effect in those economies.

The main investor country in Latin America was the Netherlands with a rate of 20% and in terms of the one captured by Mexico, it came mainly from the United States with 29%, which is the second biggest investor for the region with 17% and the third investor was Spain with an FDI rate of 10%, being its main country to invest Mexico with a share of 18%. The regional economic growth stood at 1.2% which was what stopped investments to supply the domestic market [2].

As can be seen in Figure 2, the heterogeneous behavior of FDI in Latin America that has been marked since the 2000s with a behavior of considerable highs and lows, this is due, on the one hand, to the global economic recessions where the largest foreign investment goes to developed countries, because its stability that supports investors and, on the other hand, the decrease in raw materials offered by developing countries that absent FDI coupled with the lack of reforms that help in the opening of new economic sectors where investment is attractive [3].
Foreign direct investment in Latin America, net inflows (BoP, current US$) 2014

Fig. 2 FDI in Latin America 1970 – 2014


Figure 3 shows clearly that FDI in Mexico in 2014 had a very negative behavior due to the divestment suffered in this period, since it presented a significant decrease of 49%, because compared to previous years it had shown a very positive behavior and upward, being the most affected Latin American economy in this period [2].

Foreign Direct Investment, net inflows (BoP, current US$) 2014 Mexico

Fig. 3 FDI 1970-2014, Mexico

III. Foreign Direct Investment in México 2016

FDI in developed countries grew by 90% in 2015, in contrast to that received by developing economies that only registered a poor increase of 5.3%. While FDI flows to Latin America and the Caribbean showed a fall of 9.1%, respectively.

According to the background that prevails in Latin America, it is clear that the role of recipient of direct foreign investment is being lost and that due to the proportion of GDP, FDI inflows for the region presented a figure of 3.5% caused by a stabilization. This figure differs in each country and is associated with the size of the economies: in bigger economies, FDI has a lower weight in the product; For example, in Mexico it reached 2.5% of GDP.

The evolution of FDI inflows in the countries of the region was heterogeneous. FDI in Mexico increased by 18% in 2015 and reached 30,285 million dollars, one of its highest levels in seven years; In this country, the manufacturing sector, the automotive industry, telecommunications were the ones that received the largest investments, in addition to the regulatory changes that facilitated the participation in certain sectors of the economy of foreign companies and that was previously closed to foreign direct investment.

According to the ECLAC report, the specific amount of FDI that flowed into the region in 2015 was USD $ 179.1 billion, which represented a decrease with respect to the previous year of 9.1%, and the worst sum recorded since 2010. This poor performance is explained by several variables:

In 2015, it was the year in which the fall in investment was mainly due to mining and hydrocarbons, these primary economic sectors lost importance due to the low cost of contribution, which visibly affected the sectoral composition of FDI. The United States positioned itself as the main investor in the region, with a share of 25.9% of FDI income, while in second and third place investments were located from the Netherlands and Spain [4].

By analyzing this year, it can be seen in figure 4 how increasingly Latin America is one of the most disadvantaged regions in the capture of FDI, this mainly to the global economic recession that continues to occur, giving guidelines for such investment to flow towards the developed economies, since they enjoy economic stability, which makes them more attractive for foreign investors and that in deterioration of the Latin American economies were the lowest rates received during the five-year period, further slowing economic growth [5].
Foreign direct investment, net inflows (BoP, current US$) 2015

Fig. 4 FDI Latin America and Caribbean 1970-2015


As shown in figure 5, it is clearly perceived how Brazil and Mexico are the main FDI capturing countries, since the first one attracted almost 75 billion, while Mexico, approximately 36 billion US dollars respectively, and very close to Chile, Argentina and Colombia respectively with 20, 11 and 11 billion US dollars.

**Foreign direct investment in the main Latin America countries, net inflows (BoP, current US$) 2015**

Fig. 5 Main countries of Latin America FDI collectors 2015

According to figure 6, it shows the behavior that Mexico has experienced in recent years, where it is clearly seen how it has started to recover in the last three years thanks to the manufacturing sector, the automotive industry and the telecommunications that received the largest investments, since its historical behavior has been mostly heterogeneous since the 2000s and that its maximum reported historical growth took place between the years 2012 and 2014.

**Foreign direct investment in Mexico net inflows (Bop, current US$) 2015**


**IV. Foreign Direct Investment in Mexico 2017**

Latin America must quickly seek to return the correct direction of growth and consistent and inclusive economic development, because the results obtained show that it has fallen into a widespread economic slowdown in the region, which conditions growth as planned. This behavior will qualify the strength of the socioeconomic progress obtained during the past decade, directly affecting the reduction of poverty levels. The growth prospects of Latin America in a more demanding international environment analyze labor markets and key socioeconomic indicators of the region, such as poverty and inequality, together with the different economic policy options focused on investment of infrastructure and skills to stimulate growth inclusive within a credible and sustainable fiscal framework, through macroeconomic policies [6]
The trends of foreign direct investment (FDI) in the Latin American and Caribbean region in 2017 show a difficult background. The FDI inflows decreased by 7.8% in 2016 to 167,180 US dollars, representing a cumulative fall of 16.9% with respect to the 2011 maximum level. The fall in commodity prices continues to affect investments they seek natural resources, as well as the slow growth of economic activity in several economies have slowed the flow of capital in search of markets, coupled with the global scenario of technological sophistication and expansion of the digital economy that holds transnational investments in the developed economies.

The developed economies continue to lead, they received 59% of the FDI flows, presenting an increase of 5%, in contrast the developing economies received 37% of the total FDI, that means a decrease of 14%. Where cross-border mergers and acquisitions played an important role concentrated in developed economies, driven by high international liquidity and sectoral dynamics. This situation has hampered the arrival of investments in Latin America and the Caribbean.

Mexico could not sustain the dynamism of previous years and FDI fell by 7.9%, although it remained at historic high levels, it was the second recipient country with 19% of the total after Brazil. On the other hand, for the second consecutive year, renewable energies were the most profitable sector; they received 18% of the total announced: two thirds of those investments went to Chile and Mexico. Mergers and acquisitions abroad of Mexican companies mainly in the construction sector boosted the economy, but what stopped the growth was the fall in the prices of natural resources, curbing FDI in the country and in the rest of the Latin America.

The investor countries have not diversified. 73% of the total FDI came from the United States with 20% and the European Union with 53% [7].

As shown in figure 7, it is clearly visualized how the entire region of Latin America and the Caribbean continues to be the most affected area in terms of attracting FDI, because the multiple problems of low cost of raw materials; the null economic growth of the economies that make them up; few reforms that facilitate the opening of new areas to investment and the global economic turbulence are the main causes that cause the little flow of foreign investment to this area [8] [9].
As can be seen in Figure 8, Mexico was the country in Latin America that had the most negative repercussions on the FDI uptake, where it is clearly seen that Brazil continues to recover slowly and in relation to the other main emerging economies of the region, they also follow a downward trend.
Figure 9 clearly shows how Mexico was the country that suffered a significant downward change, being the phenomena that most influenced this behavior: the fall in prices of raw materials and mainly the slow growth in economic activity that slow down the arrival of capital.

**Foreign direct investment in Mexico net inflows (Bop, current US$) 2016**

![Graph of Foreign direct investment in Mexico 1970-2016](image)

Source: International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources

**V. Conclusions**

According to the analysis carried out previously, it can be said that one of the main obstacles that have held back the attraction of FDI to Latin America has been the decrease in the prices of raw materials, because the most investors seek access to raw materials, coupled with the slow growth of the economic apparatus of most of the economies that compose it. As far as Mexico is concerned, it is important to emphasize the scarce and few transparent investment attraction strategies oriented towards the modernization of the economy and the diversification of production, adhering to the global markets of expansion of the digital economy and technological sophistication that attract foreign investment mainly in developed countries.

With active and policies in Mexico, FDI can become an important component that helps national productive development, promoting the diversification of the economy and enhancing innovation as long as it is under the regulatory framework that the State dictates, mainly in strategic sectors such as: financial, energy, telecommunications, natural resources, etc., which are among the most important in an economy.
It is also important to mention that investing in skills and offering entrepreneurship opportunities to improve and facilitate the transition of young people from school to work, making them participants and taking advantage of the opportunities of social, political and economic changes; incorporating the use of technology, promotion of research and development for the creation of high quality employment, are factors that enhance the growth and development of every economy currently.

Finally, the positive effects of FDI can boost the development of receiving economy; in particular, promoting national savings through new capital contributions and stimulating technology transfers and management systems for productive modernization.

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