Cobeal Research and Development: Economic Development and Policy Studies
Volume 2, Issue 1 | November 2024

Foreign Direct Investment in Mexico: Historical Perspectives, Current Dynamics, and Future Prospects

By Sophy M. Laughing, Ph.D., MBA, and Paula Gabriela Pellicer Torres, Esq.

Abstract
This study examines the evolution of Foreign Direct Investment (FDI) in Mexico from both historical and contemporary perspectives. Dr. Sophy M. Laughing provides an analysis of the country's economic and political developments, focusing on key milestones such as the implementation of NAFTA in 1994 and subsequent reforms that have shaped Mexico's investment environment. Her work explores the influence of governance structures, economic policies, and international agreements on FDI flows over the past three decades.

Paula Gabriela Pellicer Torres addresses the current challenges and opportunities facing FDI in Mexico. Her contribution includes an examination of governance issues, infrastructure deficiencies, and security concerns, alongside an assessment of nearshoring trends and renewable energy investments as potential drivers of economic growth.

This collaborative effort offers a brief overview of the factors affecting FDI in Mexico, providing a clear analysis of its historical trajectory, present dynamics, and potential future developments in the global economic landscape.

Keywords: Foreign Direct Investment (FDI), NAFTA, economic reforms, governance, nearshoring, renewable energy, Mexico.

Author Affiliations
Dr. Sophy M. Laughing
Head Researcher, Cobeal Group of Companies
With over three decades of experience in industrial and environmental systems, Dr. Laughing specializes in sustainable solutions and international economic development.

Paula Gabriela Pellicer Torres, Esq.
Corporate Counsel, Cobeal Legal Research and Development
An expert in legal frameworks governing foreign investment, Ms. Pellicer Torres focuses on corporate compliance, international trade law, and economic policy.

Published Online First
DOI:

DOI: Online First

An Overview of FDI in Mexico from 1994 to Present

Sophy M. Laughing, Ph.D., MBA

Foreign Direct Investment

ARTICLE INFO This article, "An Overview of FDI in Mexico from 1994 to Present," written by Dr. Sophy M. Laughing, emphasizes the author's understanding of Mexican politics and economic reforms during the 1990s, especially surrounding NAFTA's implementation. The article highlights pivotal policy moments, as well as political, economic, and historical factors that have influenced Foreign Direct Investment (FDI) in Mexico over the last 30 years and onwards. It concludes with a glimpse into the current administration, touching on issues such as bilateral relations with the United States, transparency reforms, and ongoing challenges in energy, infrastructure, and governance.

I. INTRODUCTION

This paper provides an in-depth analysis of the key factors that have influenced Foreign Direct Investment (FDI) in Mexico, beginning with the implementation of NAFTA in 1994, which significantly boosted FDI. It then delves into Mexico's political model, focusing on the Institutional Revolutionary Party (PRI) and its governance structure. The next section highlights Mexico's economic uncertainty during the presidencies of Luis Echeverría, José Lopez Portillo, and Miguel de la Madrid, emphasizing inflation, foreign debt, and the impact of the 1979 energy crisis.

The discovery of oil reserves during Lopez Portillo's presidency is explored as a pivotal moment in Mexico's economy, followed by an examination of the complex bilateral relationship between the United States and Mexico, particularly in the context of natural gas deals and ongoing diplomatic challenges. The paper also discusses Mexico's response to the 1979 energy crisis and the nationalization of its banking sector.

Next, the paper outlines the political and economic dynamics that have shaped FDI, including Mexico's neoliberal shift under Miguel de la Madrid and its entrance into global trade agreements. Reforms in Mexico are examined, with a focus on transparency, the effects of the 1985 earthquake, and the role of corruption in Mexico's economic landscape.

The introduction of Claudia Sheinbaum's presidency is discussed, particularly her cabinet appointments and the challenges her administration faces in terms of judicial reforms and foreign investment. Finally, the paper assesses Mexico's current economic outlook, evaluating the impact of nearshoring, governance reforms, and public finances.

II. NAFTA IGNITED FDI IN MEXICO

It was March 1994. Foreign direct investment (FDI) in Mexico had increased by approximately 150% in the year NAFTA went into effect. FDI has remained strong in Mexico since then, even despite the economic issues caused by the peso crisis and the rise of cartels.

The recent revitalization of the *maquiladora* industry, what is now referred to as *nearshoring*, declined sharply after October 2000, due to increased global outsourcing to China, changes in the Mexican tax code, and arguably, the loss of certain tariffs due to NAFTA. While *Maquiladoras* had been in operation since the 1960s, producing less expensive goods for U.S. consumers; notably, it wasn't until 2009 that the broader US national security community began to pay greater attention to Mexico.

III. THE POLITICAL MODEL OF MEXICO

In 1994, the political model of Mexico was represented by the continuation of the Institutional Revolutionary Party (PRI), which was founded in 1929, by former president Plutarco Elías Calles, following a period of conflict with the Roman Catholic Church, rebellion in the military, and disputes with the United States. In effect, the PRI represented the institutionalized structure that emerged out of the Mexican Revolution (1910 - 20). This governing coalition sought a more conservative evolution and greater stability in government. This new party-state system was concentrated in the Central Executive Committee, whose chief was selected by the president of Mexico and entrusted with the oversight of approving party nominees for all important elective positions in Mexico, except for the presidency. The incumbent president, who under the Mexican constitution, can only serve one term, selected his own successor.

The *sexenios* (term of office for the President of Mexico, which under Article 83 of the Mexican Constitution, is limited to a single six-year term) of Luis Echeverría, José Lopez Portillo, and Miguel de la Madrid (between 1970 and 1988) confronted increasing economic challenges, in addition to the difficulty of maintaining political control over a complex socioeconomic environment. Mexico was on the brink of a new evolution—from rural to urban, from a close to a more open economy, from an isolated country on the international stage to a more engaged participant in global affairs, and the slow demise of the hegemonic power the PRI had amassed over the course of 71 years. What was becoming increasingly disconcerting was a growing sense of frustration among the Mexican public regarding what was characterized as blatant electoral fraud in the political process. The Mexican public deeply suspicious about the efficacy of elections, which relied on many techniques, among them stuffing ballot boxes, opponent intimidation, the disqualification of opposition party poll-watchers, relocating polling places at the last minute, manipulation of voter registration lists, and the issuance of multiple voting credentials to PRI supporters (McCann, 1998).

IV. ECONOMIC UNCERTAINTY

The economic uncertainty during Echeverría's presidency was complicated by a more activist foreign policy and the erosion of support for the old regime. The Import Substitution Industrialization model, which was intended to make a country self-sufficient by developing local industries and producing goods that compete with imports, had only generated seven (7%) percent growth during the decade of the 1960s. There was a growing current account deficit, as the purchase of goods and services from abroad exceeded Mexico's sales of goods and services to foreign buyers, as well as employment issues, and slowing tourism following the fallout from Tlatelolco engagement, which resulted in the deaths of students, nearly one hundred people being wounded, and over one thousand protestors arrested. Even Brigadier General José Hernández Toledo, from the Mexican Airborne Brigade, was reported as one of the wounded. The unrest in Mexico amplified the complexities of investing in this market. Mexico's socioeconomic issues were exacerbated by its growing foreign debt.

Under Echeverría's presidency, Mexico went from having diplomatic relations with 67 countries (prior to 1970) to 131, nearly doubling. Excheverría visited thirty countries during his presidency, including Cuba, as the first Mexican president to do so with Fidel Castro. He signed hundreds of international agreements (economic and scientific, technical, and cultural), and made an appearance at the UN General Assembly. Before Echeverría, Miguel Alemán Valdés and Adolfo López Mateos were the only other Mexican presidents to do so. The primary emphasis for Echeverría was to increase Mexico's engagement with other countries, and to become an observer in the Non-Aligned Movement and the Group of 77 (Bagley, 1989).

By the time José Lopez Portillo took office in December 1976, Mexico was on the brink of an economic crisis, shackled with external debt, and a devalued peso after twenty-two years of relative economic stability. Due to the payment crisis, the peso, which had been fixed at 12.50 old pesos per dollar since 1954, was devalued by 60%. In the summer of 1976, the value of the peso dropped from 8 cents to 4.9 cents overnight. Inflation surged to 60%, there were frequent threats of bank runs, the Central Bank's stock of foreign exchange reserves became severely depleted, and Mexico's debt levels increased from around $20 billion to $50 billion. This period of economic difficulty set the stage for critical discoveries that would eventually reshape Mexico's financial trajectory.

V. THE DISCOVERY OF OIL RESERVES

The discovery of major oil reserves in Mexico during the Lopez Portillo administration was an absolute game changer for Mexico. It provided an economic boost as well as a boost of confidence for the nation, as well as foreign investors interested in Mexico. Echeverría's precedent of engaging with other nations had continued under Lopez Portillo, with increased engagement in Central America. Like France, Mexico supported the FMLN (Farabundo Martí National Liberation Front) in El Salvador. Surprisingly, Mexico broke relations with Anastasio "Tachito" Somoza Debayle, the 53rd President of Nicaragua from 1967 to 1972, and again from 1974 to 1979; while simultaneously supporting the *Sandinista* movement. The Nicaraguan Revolution began with a rising opposition to the Somoza dictatorship, as well as fighting between the government and the Contras from 1981 to 1990. Mexico's international movements, coupled with increasing tensions of illegal immigration and growing drug trafficking, created tensions between the United States and Mexico, and strained what was an already tense bilateral relationship.

VI. MEXICO-US BILATERAL RELATIONSHIP

When considering the bilateral relationship between Mexico and the United States, one must note the US gas deal that President Jimmy Carter signed with Mexico in the late 1970s (American Embassy in Mexico Memo, 1979). Companies in the US signed a natural gas deal with PEMEX, for $2.60 per thousand cubic feet. At the time, the US could have signed a deal with Canada for $2.16. In response, Mexico invested millions of dollars to build a 837-mile gas pipeline from Chiapas to Reynosa, Tamaulipas—just on the other side of McAllen, Texas. During this deal, President Carter determined that the $2.16 Canadian deal was better, threatening to cancel the contract if Mexico didn't lower the rate. Energy Secretary James R. Schlesinger solidified the end of the original deal. Later, in 1979, when Carter visited Mexico, Lopez Portillo lectured Carter, in public, to the delight of the Mexican press and public: "Between permanent and not occasional neighbors, deception or sudden abuses are poisonous fruits that sooner or later backfire. No injustice prevails without violating decency and dignity," referring to the Mexican perspective that the United States had made an agreement, and then broke it. This same classic Mexican nationalist spirit is alive and vibrant today, when Andrés Manuel López Obrador (AMLO), during his August 8, 2024, *Conferencia Matutina*, blasted the United States over its handling of persons of interest to Mexico and other bilateral issues. These examples reinforce the point that while Mexico is welcoming to foreign governments and international investors, the relationship between the United States and Mexico remains complicated. This history is alive and well in Mexico, while propaganda in the United States is primarily focused on illegal immigration and the fentanyl crisis, though China is also a primary source for fentanyl and fentanyl-related substances trafficked directly into the United States. According to an unclassified DEA Intelligence Report, India is emerging as a source for finished fentanyl powder and fentanyl precursor chemicals. Despite the highly televised fentanyl issue between the United States and Mexico's transnational criminal organizations (TCOs), China is the primary source for these illicit fentanyl substances. Regardless, Mexicans are painfully and continuously aware that the differences in size and stage of development between Mexico and the US make for an unbalanced relationship, while Mexico's push towards increased governance, transparency, and foreign direct investment (nearshoring) are key pillars that can lessen this divide.

VII. THE 1979 ENERGY CRISIS

Despite the oil discoveries and increase production in the 1970s, and the economic boost that came with it, Mexico was not prepared for the 1979 energy crisis. The subsequent decline in oil prices caught Mexico at an inconvenient time, severely harming the Mexican economy. Between the peso devaluation, which exacerbated the external debt challenge, inflation, and a sharp increase in unemployment, Mexican banks were unable to repay foreign creditors (primarily the United States), and the private banking system was approaching collapse. At this point, Lopez Portillo had one foot out the door, while Miguel de la Madrid was 90 days away from his inauguration. Portillo chose to nationalize the banking sector.

VIII. POLITICAL AND ECONOMIC DYNAMICS THAT INFLUENCE FDI

The larger political and economic dynamics that influence FDI in Mexico provide insights into today's FDI in Mexico. Fast forward past the *sextenio* of President Miguel de la Madrid, with the continuing depressed price of oil on the international market, the scarcity of foreign exchanges, annual inflation rates approaching 100 percent, and the contraction of both the agricultural and industrial sectors, this allows for a better understanding of why Mexico had a negative GDP growth rate during that period.

Just as Echeverría selected Lopez Portillo to succeed him due to his background in finance and budgeting, so too did Portillo select de la Madrid, though Madrid was the first Mexican president with graduate training in the United States in both public policy and economics. In addition to de la Madrid's law degree from the National Autonomous University of Mexico (UNAM), he earned an MPA from Harvard's Kennedy School. His background included working for Mexico's central bank, the finance ministry, PEMEX, and as a bureaucrat for Echeverría. More importantly, he served as Lopez Portillo's *Secretario de Programación y Presupuesto* (Secretary of Programming and Budget). Portillo's modifications to Mexico's equivalent Office of Management and Budget in 1976, which Lopez Mateos created in 1958 for national public administration, transferred some of the functions from the treasury department, and most importantly, he tasked the SPP with the mission of developing a national development plan.

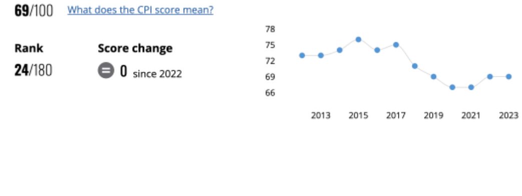
As with many topics in this article, I can only scratch the surface, but from here we step back in recognition that the series of economic decisions de la Madrid made during his presidency, coupled with the economic decisions dating back to Echeverría's foreign policy, led to the investment climate we associate with the Mexico of today. De la Madrid started moving Mexico away from the previously public-sector-run economy toward a more neoliberal economic environment. He welcomed and even encouraged private and foreign direct investment, privatized a number of state-run industries (except PEMEX), and moved toward lowering trade barriers, leading to the General Agreement on Tariffs and Trade (GATT) in 1986. It would still take several years before these reforms (and others) would have a positive effect on the Mexican economy, as inflation had reached 157 percent in 1987, but de la Madrid continued with Echeverría's diplomatic values of nonintervention and aversion to the threat of force in international relations. In a further act of peaceful solution of conflicts, Mexico joined Colombia, Panama, and Venezuela, in 1983, in the creation of the Contadora Group, an initiative created to promote democratization and end armed conflict in the region. The US did not support this initiative, which was another point of contention between the two countries.

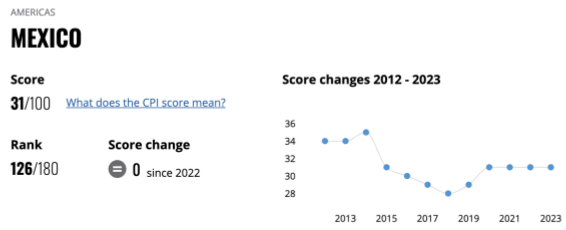
IX. ONGOING REFORMS IN MEXICO

In the wake of reforms and the propagation of democracy in Latin America, Mexico was struck by an 8.1 magnitude earthquake on the morning of September 19, 1985. It was the strongest earthquake on record for Mexico. Given Mexico City was built on top of Tenochtitlán, which was constructed on top of Lake Texcoco, Mexico City was vulnerable to a shock of that magnitude. Geology is not in Mexico City's favor, when it comes to earthquakes. An estimated ten thousand people lost their lives in the 1985 earthquake, in large part because the Mexican government had not planned adequately for this risk, and because the response by the government at the time was completely unsatisfactory.

The term "national security" was not widely used in Mexico until the 1980s; whereas, in the United States, the geopolitical realities of World War II and its aftermath, which heightened conceptual and organizational change of US security institutions, especially where national security was involved. Before this time, Mexico was primarily focused on issues of internal security, which arguably was one of the reasons they lost the Mexican-American War (1846 - 1848), as Antonio López de Santa Anna was forced to return to Mexico City to defend the capital. However, it wasn't until López Portillo (1976 - 1982) and de la Madrid's administrations (1982 - 1988) were there any explicit references to the term *national security*. Portillo's *sexenio* coincided with the discovery of vast petroleum reserves. De la Madrid's *Plan Nacional de Desarrollo de 1983* (National Development Plan of 1983) was the first such document to mention national security concerns, due to external concerns in Central America, a growing drug-trafficking concern, and internal economic issues.

Though corruption is not a topic on which I am focusing in this article, I'd be remiss not to mention it, when it comes to the tale of Mexico. Transparency International ranks Mexico at 126/180, giving it a Corruption Perceptions Index (CPI) score of 31/100, which measures how corrupt each country's public sector is perceived to be, according to experts and businesspeople. The United States, by comparison, ranks 24/180, with a CPI of 69/100. While these numbers differ, evolution of this score from 2012 - 2023 is notably similar, with dips down to the mid 60s for the US between 2019 - 2021, and dips to the high twenties for Mexico between 2017 and 2020.





X. TRANSPARENCY IN MEXICO

Mexico's response to transparency has been something of a mixed bag. While one might argue that President Vicente Fox made few significant legislative strides during his six-year term, he did pass one of Mexico's most significant legislative reforms on transparency and access to information called the Federal Law for Transparency and Access to Information, which grants citizens' access to most public documents, similar in effect to how the U.S. Freedom of Information Act (FOIA) acts. This was a significant achievement for Mexico after decades of a one-party rule. There are both successes and limitations to this law, but Mexico, like other nations, is continually evolving through socioeconomic issues.

In the Spring of 2024, President Andrés López Obrador (AMLO) and his party effectively paralyzed Mexico's independent transparency and data protection agency by blocking nominations to fill vacant seats on its board (Human Rights Watch, 2023). The National Institute for Transparency, Access to Information, and Data Protection (INAI) is the independent agency vested with enforcing transparency and data protection laws in Mexico. It has played an important role in ensuring the right to privacy of ordinary Mexicans and ensuring that journalists and human rights defenders can obtain the necessary information to document and expose human rights violations and corruption. AMLO's party repeatedly proposed eliminating this agency, claiming it was unnecessary. Eliminating INAI would undermine Mexicans' right to access public information and to make decisions about how their personal data is used.

XI. SHEINBAUM'S PRESIDENCY

On June 20, 2024, then-incoming President Claudia Sheinbaum began naming her Cabinet, which presented an even gender distribution, as well as a heavy influence from academia and her prior administration as Mexico City's mayor.

Sheinbaum appointed former Foreign Affairs Secretary Marcelo Ebrand as her administration's economy secretary. He stepped down to run against Sheinbaum for the Morena party's nomination. Ebrard was the Mexican official AMLO placed in charge of obtaining foreign-made vaccines for Mexico during the early days of the COVID-19 pandemic. He also served as mayor of Mexico City from 2006 to 2012, which like the Office of Governor in California, is traditionally a launching pad for the presidency. Ebrand's reputation was tarnished after the subway line collapsed in 2021, where 26 passengers lost their lives, but his appointment to Sheinbaum's cabinet was received positively by investors, who have been closely monitoring proposed judicial reforms by Sheinbaum (which caused the peso to drop). After Ebrand's appointment, the Mexican currency appreciated slightly.

Ebrand will address the renewal of the free trade agreement with the United States and Canada (USMCA). He will also be tasked with increasing foreign investment. At the same time, Sheinbaum's cabinet must maintain transparency in Mexico's judicial overhaul, as proposed changes to Mexico's judicial system could signal corruption, which would in turn negatively impact foreign investment, that from U.S. investors and companies. Ken Salazar, the U.S. ambassador to Mexico, said that a strong judicial system was important, but it was up to Mexicans to decide on the changes.

Sheinbaum appointed Juan Ramón de la Fuente as her secretary of foreign affairs. De la Fuente is the former rector of UNAM, which Sheinbaum attended (1984 - 1995) and where she previously worked. Several prominent individuals attended UNAM.

The list includes: Carlos Slim, the Mexican business magnate, investor, and philanthropist; Andrés Manuel López Obrador, Mexico's 65th president; Octavio Paz, the Mexican poet and diplomat; Raúl Salinas de Gortari, Carlos Salinas de Gortari's older brother; Luis Echeverría, Mexico's 57th president; José López Portillo, Mexico's 58th president; Miguel de la Madrid, Mexico's 59th president; Carlos Salinas de Gortari, Mexico's 60th president; Howard Brush Dean III, an American physician, author, consultant, and retired politician who served as the 79th governor of Vermont (1991 - 2003), María Isabel Allende, a Chilean politician and the youngest daughter of former Chilean president Salvador Allende Gossens; Rodolfo Neri Vela, the Mexican scientist and astronaut who flew aboard a NASA Space Shuttle mission in 1985 [he is the second Latin American to have traveled to space, after Franklin R. Chang-Díaz, who was the first Latin American astronaut to travel to space in 1980]; Norma Piña, Mexico's Chief Justice; Luisa María Alcalde Luján, the youngest woman to serve in a Mexican cabinet, when López Obrador named her labor minister.

XII. MEXICO'S FDI OUTLOOK

Once again, Mexico is navigating troubled socioeconomic waters. Sheinbaum's new cabinet has significant advantages with respect to the strength of the financial system, but there are growing public concerns related to public spending and the real fear that the legal security framework of the country may change due to an excess of power in the hands of the ruling party.

On the positive side, Mexico has moderated its debt levels as a percentage of GDP at approximately 55%, which is manageable for a new administration tasked with maintaining the economic fundamentals that have been in place for decades. Mexico's external accounts appear solid. Last year, remittances reached historic levels of $60 billion, tourism revenues are rising again, and FDI reached unprecedented levels, exceeding $30 billion in 2023. Mexico's financial system is strong, with adequately capitalized commercial banks and no significant short- or long-term pressures. The exchange rate, which serves as the pressure relief valve for financial and macroeconomic pressures, is flexible, which is a positive factor compared to earlier days when the exchange rate was tied to control policies. Banxico will remain autonomous, which is essential for Mexico's economy—something that has remained untouched by Mexico's prior administrations and should remain untouched during Sheinbaum's presidency. At present, the United States is Mexico's top trading partner, although the US elects former President Donald Trump in its upcoming presidential election, Trump's policies could impact both Mexico and the United States' economies.

On the flip side, Mexico 's public finances are fragile, leaving Sheinbaum little room to maneuver. This will lead to continued conversations with PEMEX. The Mexican government has been encouraging the state oil producer to seek equity partnerships with private oil companies. These partnerships would be like prior Pemex joint ventures with private oil producers, known as farm-outs, which Mexico pursued through a landmark energy reform enacted in December 2013 (Reuters). Mexico's Congress opened up the country's ailing energy sector to private investment. It was the biggest shake-up in PEMEX in 75 years. The overhaul was part of President Enrique Pena Nieto's reform agenda to boost growth in Latin

America's economy. The reform ended the exploration and production monopoly held for decades by PEMEX, as well as the monopoly held by the national electric utility CFE. Articles 25, 27 and 28 of the constitution were changed to allow profit- and production-sharing contracts, as well as licenses. The reform rewrote article 28 of the constitution to put an end to government monopolies in the operation of oil and gas fields, as well as in power generation; however, it kept government control over transmission and distribution of electricity.

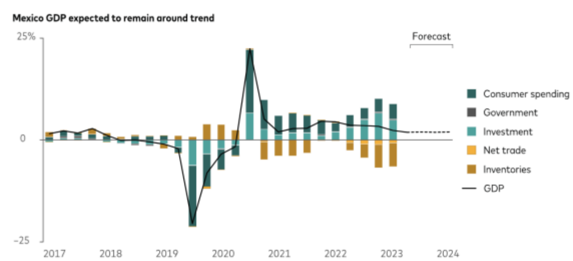
Other challenges faced by Sheinbaum's administration are bottlenecks in energy, water, and infrastructure. To effectively take advantage of nearshoring, Mexico will need to address challenges in these areas. The reality is the government will need to rely on private initiatives to successfully carry out these projects, which opens the doors of opportunity for foreign investors.

However, physical and land security remain some of the biggest challenges and risks for the new government, which in turn affects investments and the economy. Markets are actively evaluating the implications of the recently approved judicial reforms. This issue in particular warrants close monitoring. The ongoing bilateral tensions between the United States and Mexico are relevant as the trade agreement comes up for renewal in 2026, especially due to the expropriation of companies in Mexico.

While Mexico, like all nations, faces significant internal and external socioeconomic challenges, as well as natural ones (i.e., energy and water), I am optimistic about Mexico's future. Its solid foundation has improved its resiliency to external shocks.

XIII. ECONOMIC OUTLOOK

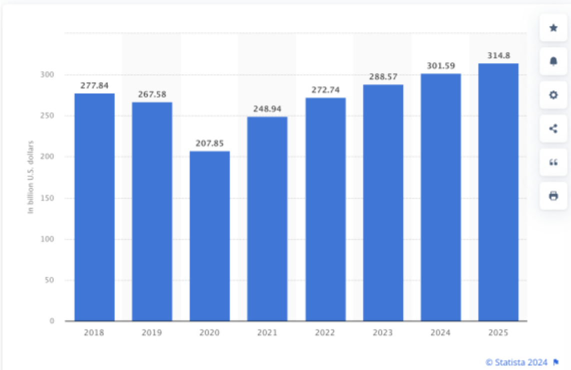
From an economic outlook perspective, Vanguard projects's Mexico's GDP grew by in the second quarter of 2024, up from 0.1% in Q1 2024. Banxico cut its interbank rate by 25 basis points, to 10.75% (effective August 9), to balance risks to economic growth. Core inflation has fallen steadily since the beginning of 2023 and could finish 2024 near the upper end of the 2%-4% target range set by the Bank of Mexico (Banxico), but Vanguard reports indicate that it might not fall to the 3% midpoint until late 2025. This represents the last mile in the inflation fight, which is proving challenging, as strong wage growth from a tight labor market buoyed spending, which in turn kept service prices elevated. Meanwhile, Mexico's labor market remains robust, with year-over-year employment growth reaching its prepandemic average of 3.7%. The market's strength continues to support strong wage growth. Consumer spending and investment recovered after a solid 2023, after their pandemic slump, which supports growth. Investment due to nearshoring is a key positive factor in the short term, although high interest rates and net trade may offset some of the gains with a likely slowdown in external demand, especially from the US (Vanguard, 2024).



Looking forward to 2025, Statista forecasts an increase to an estimated 314.8 billion in U.S. dollars by 2025.

Total amount of investments in Mexico from 2018 to 2025

(in billion U.S. dollars)



Statistica depicts inflation as being between 3.29% and 3% between 2025 and 2029, based on Mexico's averages between 2005 and 2024, while gross domestic product (GDP) is estimated to reach 2,437.85 billion U.S. dollars by 2029.

Mexico: Inflation rate from 1987 to 2029

(compared to the previous year)

Mexico: Gross domestic product (GDP) in current prices from

(in billion U.S. dollars)

The Bank of Mexico predicts that Mexico's economic growth will be 1.2% in 2025, while Deloitte predicts that Mexico's GDP will grow by 1.4% in 2025.

XIV. CONCLUSION

This paper has outlined the major factors that have shaped foreign direct investment (FDI) in Mexico over the past few decades, focusing on key economic and political events. Beginning with NAFTA's significant impact in 1994, which spurred a 150% increase in FDI, Mexico's economic shifts have been underscored by political dynamics, including the dominance of the PRI and episodes of electoral fraud. The discovery of oil reserves provided Mexico with a short-term economic boost, though the 1979 energy crisis exposed vulnerabilities in the economy.

Key political figures, such as President Luis Echeverría and José Lopez Portillo, faced economic challenges, particularly regarding inflation, foreign debt, and shifts in Mexico's trade relationships. The bilateral relationship with the United States has played a central role in shaping Mexico's FDI climate, evidenced by high-profile agreements like the natural gas deal signed under President Carter. Reforms under Miguel de la Madrid introduced neoliberal policies and privatization efforts, aiming to stabilize the economy and attract further investment.

Ongoing challenges remain, particularly in areas of corruption and transparency, with institutions such as INAI being impacted by political decisions. The current administration under Claudia Sheinbaum faces significant socioeconomic hurdles, including public spending concerns and potential reforms in the judiciary system. However, opportunities abound in the form of nearshoring, rising remittances, and strategic partnerships in the energy sector.

In conclusion, while Mexico's economic landscape presents challenges, particularly related to governance and structural reforms, its solid financial foundation, resilient FDI climate, and opportunities in emerging industries position it as a key destination for investors looking to diversify from traditional markets like China.

REFERENCES

1. Salinas, Carlos. *México: Un Paso Difícil a la Modernidad*. Mexico City: Plaza & Janés Editores, 2000, pp. 809-76.
2. Bagley, Bruce Michael. "La Interdependencia y la Política de Estados Unidos Hacia México: la Década de los 80." In *México - Estados Unidos 1987*, edited by Gerardo M. Bueno and Lorenzo Meyer, 45-67. Mexico City: El Colegio de México, 1989.
3. McCann, James A., and Jorge I. Dominguez. "Mexicans React to Electoral Fraud and Political Corruption: An Assessment of Public Opinion and Voting Behavior." *Electoral Studies* 17, no. 4 (1998): 483-503.
4. American Embassy Mexico. "Post Memorandum: Mexico." Cable to the Secretary of State, January 26, 1979. *Electoral Studies* 17, no. 4 (1988): 484-86.
5. Human Rights Watch. (2023, May 24). *Mexico: Public accountability, privacy under threat*. Human Rights Watch. https://www.hrw.org/news/2023/05/24/mexico-public-accountability-privacy-under-threat
6. Martinez, A. (2009, April 6). *2009: The year America discovered Mexico*. Foreign Policy. https://foreignpolicy.com/2009/04/06/2009-the-year-america-discovered-mexico/
7. Reuters, Barrera, A. and Oré, Diego. (2024, August 8). Mexico's incoming government wants to open Pemex oil partnerships, sources say. https://www.reuters.com/business/energy/mexicos-incoming-government-wants-open-pemex-oil-partnerships-sources-say-2024-08-08/
8. Vanguard. (September 19, 2024). *Mexico: Vanguard Economic and Market Outlook*. Vanguard. https://corporate.vanguard.com/content/corporatesite/us/en/corp/vemo/vemo-mexico.html
9. Statista Research Department. (2023). *Total amount of investments in the economy and market of Mexico*. Statista. https://www.statista.com/statistics/1397283/total-amount-of-investments-economy-market-mexico/#:~:text=Published%20by%20Statista%20Research%20Department,Guatemala%2C%20Guyana%2C%20and%20Nicaragua.
10. Díaz del Castillo, Bernal. *True History of the Conquest of New Spain*. New York: Hackett Publishing Company, 2012, xv.

Perspective and Prospects for Foreign Direct Investment in Mexico

By Paula Gabriela Pellicer Torres

Abstract.
Over the last thirty years of the twentieth century, Mexico has proven to be an attractive destination for foreign investment. However, to ensure commercial advantages or balance, Mexico needs to confirm its rule of law, promote tax reform, invest in transportation and communications infrastructure, and reduce the crime rate.

Keywords: *investment, growth, challenges, sectors, advantage, foreign.*

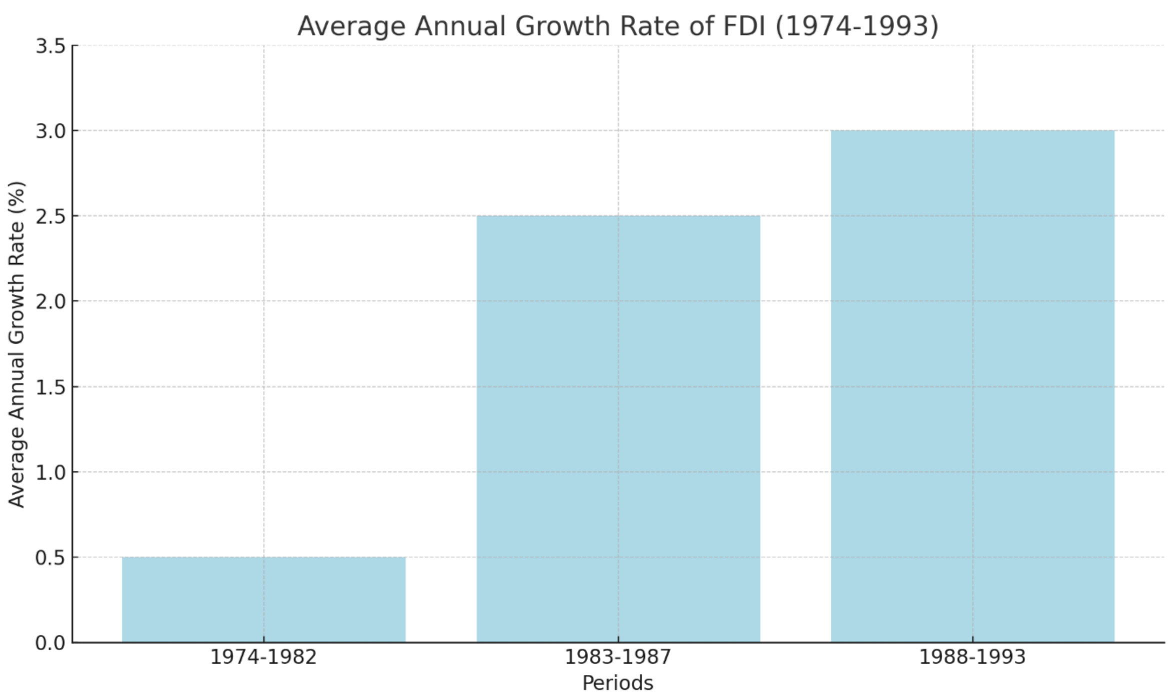
Introduction.
The history of international trade dates back to ancient times, marked by three crucial moments in the exchange of goods and services between communities, kingdoms, regions and countries, from 3400 B.C. to contemporary times. The first milestone is the exploration of land and sea routes, leading to territorial expansion, colonization, or alliances for economic and political reasons, as seen with the Phoenicians in the 5th century B.C., who advanced barter and exchange, currency use, and commercial activity recording through the development of an alphabet. The second milestone is the sophistication of banking and credit instruments during the Middle Ages. By the 12th century, in cities like Genoa, money changers in public squares facilitated deposits, financing maritime enterprises and trade transactions. The third milestone, from the end of the 18th century, involves formalizing treaties and trade agreements, setting rules for tariffs, protection, balance of exchange conditions, profit reinvestment, bonds and insurance policies, intercompany accounts, new investments, labor-management conditions and tax strategy are the main issues of interest to the private and public sectors.

International trade implies investment, and foreign investment is crucial for growth, competitiveness, and innovation but requires measures to ensure sustainability and consolidation.

The History of Foreign Investment in Mexico.

The modern history of Foreign Direct Investment (FDI) in Mexico dates back to 1876 during Porfirio Diaz's presidency, initially aimed at transforming manufacturing and commerce to impact economic growth. Between 1876 and 1911, foreign investment focused on infrastructure financing, the extractive industry (mining and oil), linking agrarian and processing industries (brewing, textile, cotton, tobacco, sugar), and the creation and operation of Banks (Bank of London, Mexico and South America, founded in 1864). Due to inadequate public policies, frequent union revolts and lack of effective tax law, the 1917 Constitution incorporated mechanisms to restrict economic freedom of foreign capital. The following two decades saw high tax burdens and reduced project profits, especially in mining and oil, leading to the 1938 oil expropriation. Despite challenges, FDI in Mexico, primarily from the U.S., increased, with notable contributions in transformation industries, mining, metallurgical and steel industries, and commerce.

The 1973 *Law to Promote Mexican Investment and Regulate Foreign Investment*, repealed and replaced by the 1993 *Foreign Investment Law*, underwent amendments, the latest in May 2024, restricting certain foreign investments, particularly in renewable energies. Bilateral agreements and regulations such as the 2020 Agreement by which the Policy of Reliability, Security, Continuity and Quality in the National Electric System issued by the Ministry of Energy (SENER) and the Memorandum of Intent MOI, between the governments of the United States and Mexico, last December 7, 2023, were established to scrutinize foreign investments, leading to a notable increase in FDI flows between 1974 and 1993, with an annual growth rate of 20.9%[1].



Source: SECOFI (1994a). Includes investment in stock exchanges since 1989.

The creation of a bilateral working group to share information, define best practices with the tendency to develop in Mexico a selection system similar to the Committee on Foreign Investment in the United States CFIUS, complementing and perfecting the work of the

[1] Dussel Peters, Enrique (2000) *La Inversión Extranjera en México. Foreign Investment in Mexico*. Publication of the United Nations. Page 26. Printed at United Nations, Santiago de Chile.
https://repositorio.cepal.org/server/api/core/bitstreams/8b78c395-e42c-4049-9f0f-c4497093dc99/content

National Commission on Foreign Investment, integrated, in terms of article 23 of the Foreign Investment Law, by different agencies.

Mexico Today.

In the 1990s and early 21st century, Mexico consolidated its position as an attractive FDI destination due to its strategic location, international trade agreements (NAFTA, USMCA, OECD, G20, Pacific Alliance), a diversified economy, consistent consumption patterns, abundant natural resources, technological affluence, and skilled labor. Economic growth relied on national private investment and public capital in infrastructure. However, foreign capital ownership of production means increased significantly. Current strategies aim for harmony between private, public, and foreign investments, with laws requiring registration and approval for significant foreign investments, particularly those that are intended to form a majority part of Mexican companies authorized to carry out “strategic activities” or those that have assets valued at about 1.1 billion USD in operation or in inventory..

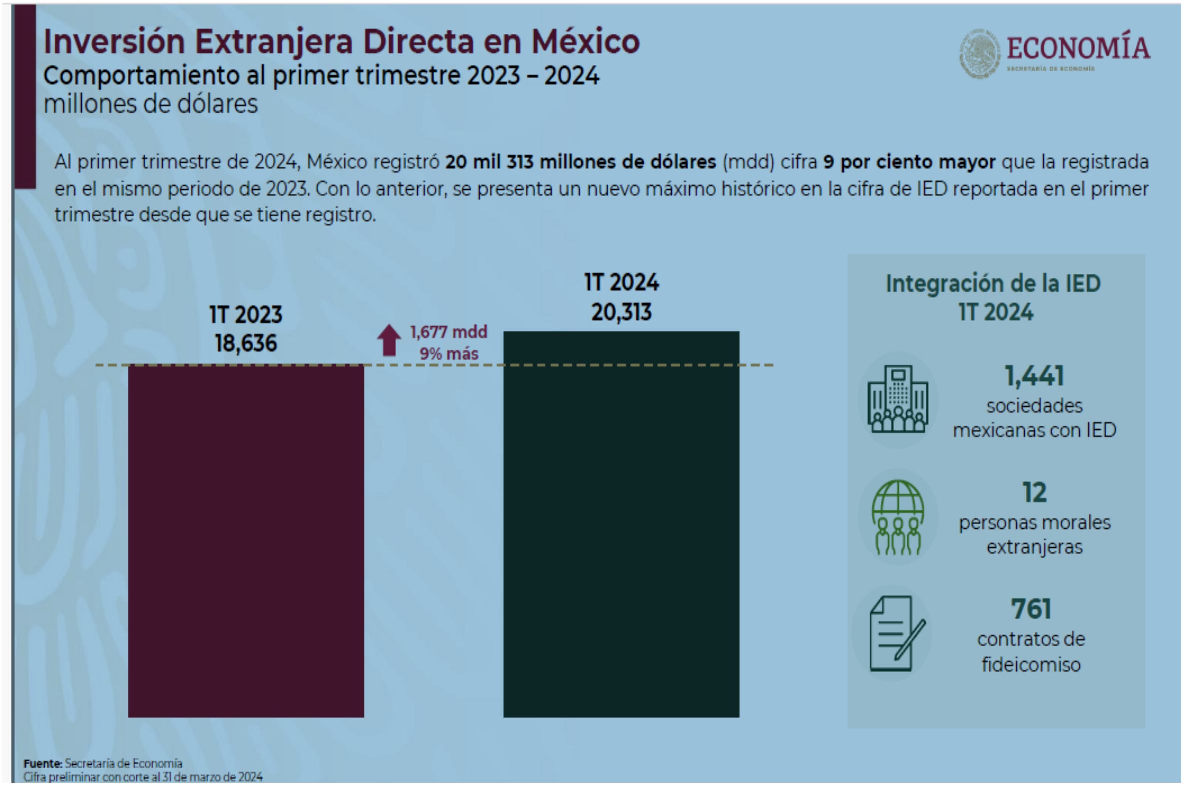
In July 2024, President Andrés Manuel López Obrador[2] highlighted FDI as crucial for economic growth, emphasizing investments from the U.S. and Canada, driven by near-shoring mechanisms. Mexico is a leading U.S. trading partner and a top global exporter in several sectors, with a record 508 million dollars in 2023. Mexico's leading export sectors include tractor-trailers, beer, avocados, tomatoes and strawberries, fourth place in heavy vehicles, sixth place in light vehicles and tenth place in electrical and electronic goods.. Rankings by the Economist Business Environment and Global Innovation Index[3] reflect Mexico’s investment climate and innovation levels. Government entities like ProMexico and Bancomext offer development and financing services for foreign trade projects.

The creation of special economic zones to attract investments to economically underdeveloped areas (approved since 2016 according to the following conformation: Pacific port of Lázaro Cárdenas, between the states of Michoacán and Guerrero, Isthmus of Tehuantepec (states of Veracruz and Oaxaca), Puerto Chiapas, Chiapas and the Coatzacoalcos, Veracruz / Ciudad del Carmen, Campeche corridors), Mexico's participation in international fairs for agricultural projects, promotion of tariff, tax benefits, access to administrative and regulatory processes, negotiation of bilateral treaties for the promotion and mutual protection of investments (27 to date), agreements/treaties to avoid double taxation, inserting Mexico into digital transactions and e-commerce are mechanisms that the Mexican government has been developing for decades to attract and secure foreign direct and institutional investment in Mexico.

---

[2] (https://criteriohidalgo. com/noticias/mexico/amlo-destaca-inversion-extranjera-historica-mexico-en-situacion-economica-excepcional

[3] https://www.eiu.com/n/geography/mexico/



[4]

And this chart depicts:

Foreign Direct Investment in Mexico

Performance in the First Quarter 2023 - 2024

In Millions of Dollars

In the first quarter of 2024, Mexico recorded $20,313 million USD, a figure 9% higher than that registered in the same period of 2023. This marks a new historical maximum for the reported FDI figure in the first quarter since records began.

- **1Q 2023**: $18,636 million USD **1Q 2024**: $20,313 million USD

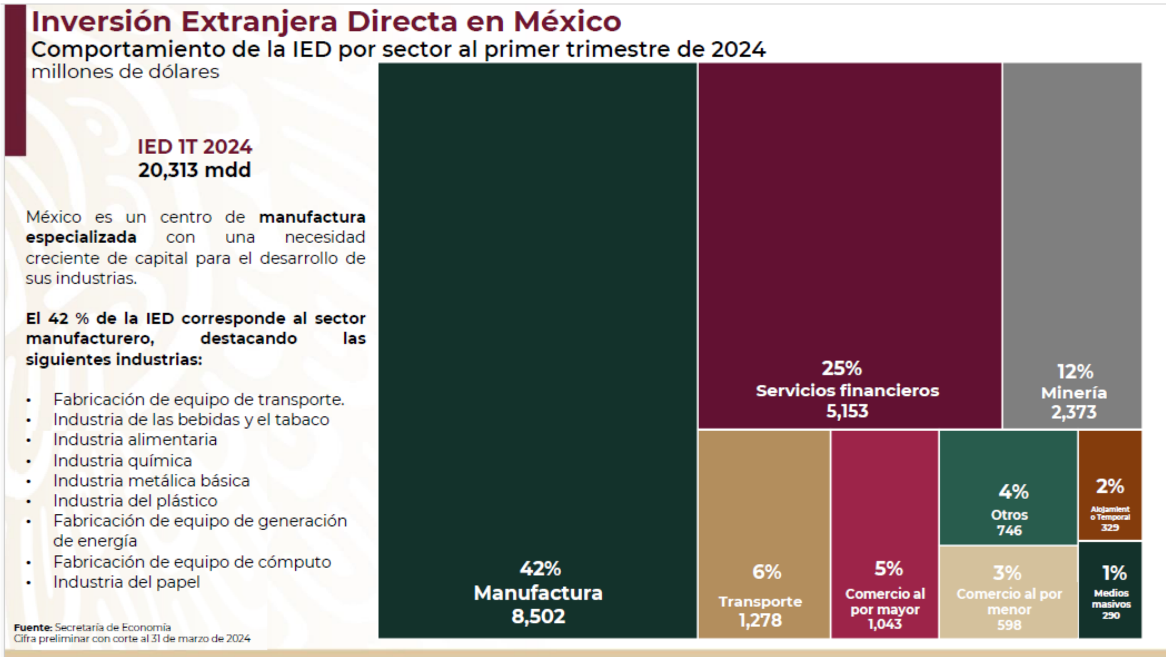
Increase of $1,677 million USD, representing a 9% increase.

Integration of FDI 1Q 2024

- **1,441** Mexican companies with FDI
- **12** foreign entities
- **761** trust contracts

Source: Ministry of Economy Preliminary figures as of March 31, 2024

[4] Undersecretariat of Foreign Trade, Global Economic Intelligence Unit, General Directorate of Foreign Investment. Inversión Extranjera Directa Primer trimestre de 2024. Foreign Direct Investment First Quarter 2024. Slide number 3 (Retrieved July 26, 2024). https://www.gob.mx/cms/uploads/attachment/file/915630/Presentaci_n_IED_1T-2024.pdf



[5]

The chart depicts: **Foreign Direct Investment in Mexico**

FDI Performance by Sector in the First Quarter of 2024 **In Millions of Dollars**

FDI 1Q 2024: $20,313 million USD

Mexico is a center of specialized manufacturing with a growing need for capital to develop its industries.

42% of FDI corresponds to the manufacturing sector, which includes the following industries:

- Manufacturing of transportation equipment
- Beverage and tobacco industry
- Food industry
- Chemical industry
- Basic metal industry
- Plastic and rubber industry
- Manufacturing of power generation equipment
- Paper industry

Sector Breakdown:

- **42% Manufacturing**: $8,502 million USD

[5] Undersecretariat of Foreign Trade, Global Economic Intelligence Unit, General Directorate of Foreign Investment. Inversión Extranjera Directa Primer trimestre de 2024. Foreign Direct Investment First Quarter 2024. Slide number 7. (Retrieved July 26, 2024). https://www.gob.mx/cms/uploads/attachment/file/915630/Presentaci_n_IED_1T-2024.pdf

- **25% Financial Services**: $5,153 million USD
- **12% Mining**: $2,373 million USD
- **6% Transport**: $1,278 million USD
- **5% Wholesale Trade**: $1,043 million USD
- **4% Others**: $746 million USD
- **3% Retail Trade**: $598 million USD
- **2% Accommodation and Food Services**: $329 million USD
- **1% Mass Media**: $290 million USD

Source: Ministry of EconomyPreliminary figures as of March 31, 2024

Challenges to Be Faced.

Foreign investments in Mexico face a series of challenges that could be a major obstacle to their development in the coming years. Although these challenges are not specific to this country and could apply to many others, they should be taken into consideration in order to develop strategies to fight them:

- The country is heavily dependent on its association with the United States. This circumstance and its geographic proximity make it fragile to any change in trade agreements.
- The trade agreements entered into with the neighboring country do not fully and deeply contemplate the conditions of real competition between Mexico and the United States or Canada in terms of the TMEC. According to the OECD (Organization for Economic Cooperation and Development) evaluations, the economic and social inequality that prevails in Mexico, related to factors such as informality, financial exclusion or corruption, are major obstacles for the country's economic and social development.
- Hinder productivity, emphasize this situation the still low female participation rates and weak investment since 2015.
- The Mexican economy that suffers from fluctuations in oil prices, the still deficient transportation, communications and logistics infrastructure also weaken the possibility of competition in adequate terms of advantage because operating costs become more expensive.
- To mitigate the difference in competitive conditions, some sectors have been reserved for exclusive intervention and exploitation by the Mexican State or Mexican citizens.
- The crime rate and the perception of insecurity in different regions of the country, according to the periodic reports issued by the Executive Secretariat of the National

Public Security System, is related to the presence of drug trafficking and the clandestine entry of weapons into the country.

- Official rules and bureaucratic processes can be complex, not clear and time-consuming in Mexico.
- Likewise, the deficient administration of justice, the recent constitutional reform of the judicial branch of government the rigidity of labor legislation and the power in the hands of labor unions discourage foreign investment in different areas.

The international economic outlook also faces sustainability challenges.

For example, in March 2023, Tesla's arrival in Mexico, particularly in the state of Nuevo Leon, was announced with great fanfare as part of the near shoring programs, despite the Mexican government's insistence that the plant where the brand's most accessible and lowest cost model would be manufactured would be located in southern Mexico.

A year and a half later, Tesla's expectations in terms of car sales in Mexico were not met.

The Chinese company BYD has been the main distributor of electric vehicles in the world for the last ten months. The price of these vehicles is up to 10 times lower than Tesla's, a condition that has negatively impacted the profit margins of the company owned by Elon Musk compared to 2021.

Red lights were lit in Mexico due to the possibility of back shoring or re-shoring, which has not been announced so far. This slowdown is also related to the trade fight initiated by the United States against China and the competition that the Asian giant has promoted in the rest of the world with highly attractive trade plans that have generated many allies, in whose sights, from the beginning, Mexico was placed.

Conclusion.

Mexico's path to sustaining and growing foreign investment involves strengthening the rule of law, implementing tax reforms, equitable wealth distribution, fighting corruption, and investing in infrastructure. Legal mechanisms, aligned with international conventions, aim to combat corruption and enhance administrative procedures, fostering a conducive environment for continued FDI growth. Efforts to attract near-shoring investments, reinvest profits, and strengthen corporate relationships are pivotal for Mexico’s economic future.

Based on Articles 25 and 26 of the Constitution, the Planning Law, the General Law of Administrative Responsibilities, the General Law of the National Anticorruption System and the National Program to Combat Corruption, Mexico has implemented a series of mechanisms to combat the causes and effects of corruption head-on and reduce or even eliminate the levels of administrative impunity in the federal government.

Certainly, a long road, but the possibility of strengthening actions that provide certainty in administrative procedures and processes will allow foreign investment to continue to rise. To emphasize this effort, there are three conventions in force to which Mexico endorses its commitment that involve the joint agreements of our country and the countries of origin of the investment bound to be attracted: Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of the Organization for Economic Cooperation and Development (OECD, 1996); Transactions of the Organization for Economic Cooperation and Development (OECD) of 1996; Inter-American Convention against Corruption, of 1997 and the United Nations Convention against Corruption or Merida Agreement, of 2003.

And finally, the geographic distribution of foreign investment to make near shoring attractive, the reinvestment of profits, loans, collections and payments between Mexican and foreign companies of the same corporate group outlines and strengthens investment.

Sources of Reference.

Criterio Editorial Office (July 25, 2024). AMLO highlights historic foreign investment: Mexico in exceptional economic situation. Criterio (retrieved July 26, 2024). https://criteriohidalgo.com/noticias/mexico/amlo-destaca-inversion-extranjera-historica-mexico-en-situacion-economica-excepcional

Cota, Isabella (May 3, 2024. 22.00 CST) Tesla's plans in Mexico deflate (but don't die). El Pais (retrieved July 25, 2024) https://elpais.com/mexico/economia/2024-05-04/los-planes-de-tesla-en-mexico-se-desinflan.html#?rel=mas

Ochoa, Carlos and Holland & Knight Alert (May 22, 2020) Mexico's foreign investment protection mechanisms for renewable energy investments. (Retrieved July 26, 2024). https://www.hklaw.com/es/insights/publications/2020/05/foreign-investment-protection-mechanisms-in-mexico-for-renewable

Foreign Investment Law https://www.diputados.gob.mx/LeyesBiblio/pdf/LIE.pdf

Regulation of the Foreign Investment Law

https://www.diputados.gob.mx/LeyesBiblio/regley/Reg_LIERNIE_170816.pdf

National Foreign Investment Commission. Informe Estadístico sobre el comportamiento de la Inversión Extranjera Directa en México (Statistical Report on the behavior of Foreign Direct Investment in Mexico). (Retrieved July 25, 2024). https://www.gob.mx/cms/uploads/attachment/file/829689/Informe_Congreso-2022-4T_VF.pdf

OECD (2022), OECD Economic Surveys: Mexico 2022, OECD Publishing, Paris, Export options: EndNote, Zotero, BibTeX, RefWorks, Procite, Import into RefWorks, Mendeley

https://doi.org/10.1787/8b913f19-es.

Santander Trade. E Expand. (April 2024) Mexico: Foreign Investment. Santander Trade (retrieved July 25, 2024) https://santandertrade.com/es/portal/establecerse-extranjero/mexico/inversion-extranjera.

Undersecretariat of Foreign Trade, Global Economic Intelligence Unit, Directorate General of Foreign Investment. Foreign Direct Investment First Quarter 2024. (Retrieved July 26, 2024). https://www.gob.mx/cms/uploads/attachment/file/915630/Presentaci_n_IED_1T-2024.pdf

Bohrish, ALEXANDER BOHRISCH and König Wolfgang. Chapter Title: FOREIGN INVESTMENT IN MEXICO, 1876-1965 Book Title: La política mexicana sobre inversiones extranjeras Book Author(s): ALEXANDER BOHRISCH and WOLFGANG KÖNIG Published by: Colegio de Mexico. Stable URL: https://www.jstor.org/stable/j.ctvckq2v4.5

Colegio de Mexico, the University of Cantabria and the UCEIF Foundation. Historia de la banca en México, 1821-1915 (Retrieved July 25, 2024). https://hbancaria.org/es/mexico/

Dussel Peters, Enrique (2000) La Inversión Extranjera en México. Publication of the United Nations. Printed at United Nations, Santiago de Chile. https://repositorio.cepal.org/server/api/core/bitstreams/8b78c395-e42c-4049-9f0f-c4497093dc99/content